

**CONTRIBUTION TO THE INCOME TAX REVENUE FROM
NEPALESE BANKING SECTOR
(With Special Reference to Siddhartha Bank Ltd.)**

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*In partial fulfillment of the requirement for the degree of
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RECOMMENDATION

This is to certify that the thesis

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Entitled:

**CONTRIBUTION TO THE INCOME TAX REVENUE FROM
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(With Special Reference to Siddhartha Bank Ltd.)**

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(With Special Reference to Siddhartha Bank Ltd.)**

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Contribution to the Income Tax Revenue From Nepalese Banking Sector (With Special Reference to Siddhartha Bank Ltd.)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Romakant Bhattarai** of Shanker Dev Campus.

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Abbreviations

| | | |
|-------|---|--|
| A.D | = | Anno Domini |
| B.S | = | Bikram Sambat |
| CEDA | = | Centre for Economic Development & Administration |
| C.B | = | Commercial Banks |
| C.V | = | Coefficient of Variation |
| CIT | = | Citizen Investment Trust |
| EBIT | = | Earning Before Interest & Tax |
| F/ Y | = | Financial years |
| HMG | = | His Majesty Government |
| l.e. | = | That Is |
| ITA | = | Income Tax Act |
| MBS | = | Master Degree of Business Studies |
| NRB | = | Nepal Rastra Bank |
| P.Er. | = | Probable Error |
| PAN | = | Personal Account Number |
| S.D. | = | Standard Deviation |
| SBL | = | Siddhartha Bank Ltd. |
| TDS | = | Tax Deduction at Source |
| TU | = | Tribhuvan University |
| % | = | Percentage |
| & | = | And |

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Nepal, which is surrounded by China to the north & India to the east, west & south, is one of the least developed countries in the world which is erecting her efforts in accelerating the pace of her economic development. Being landlocked happens to be a disadvantage for the country. Nepal is located in between the, latitude 26°22' North to 30°27' North & longitude 80°4' East to 88°12' East. The average length being 885 km. east to west & average breadth is about 193 km. north to south & area is 147,181 sq. km. The economy of Nepal is survived by agricultural sector. The agriculture sector contributes over 60 percent to the GDP of the country. Over 80% of the population is dependent on the agriculture. Therefore, major concentration of every government of Nepal has been the development & advancement of agriculture sector. Due to having poor industrial status, political instability & dependability to foreign countries, its economic strength is not so satisfactory. Per capital income of Nepalese people is low due to the poor economic condition. Nepal is highly dependent to other countries to solve its necessary.

The poor economic system maintains sound economic upliftment of a country. It is necessary to develop overall economic status. The present market & economy has more comparative, challenging & complicated due to globalization. Every sort of change occurring in one sector of the world influences the other areas. The development & diversification of business ensure sound economic condition of the country. The industry & commerce are the pillars of business which indicate the economic condition of the country. Industry involves production of goods & services through the utilization of various resources like man, materials, money & machine by completing some specific process. Before 1936, there were not any modern industries

in Nepal. The establishment of Biratnagar jute mill in 1936 led the foundation of the modern industry in Nepal. Like wise, commerce is concerned with the buying & selling of goods & services to the market. It plays the role of bridge between manufacturing & customer. It is becoming complicated & advanced day by day because of globalization, world is becoming as a small village. Any change, invention & technology of one country influences all over the world. Commerce involves trade & auxiliaries of trade. Bank has been taken as an important auxiliary of trade the modern business. Bank is an institution which deals in money & credit. It provides support to the trade by granting loans & advance & other services. It grants loans for the establishment of the organizations & to maintain regular business operation.

The numbers of financial institutions are increasing day by day. The customers are attached by these institutions with different product & schemes. Commercial banks, development banks, finance companies & laghu bittiya sanstha are standing to assign different banking services to their customers. They are assigns to develop national economy through the mobilization of fund, employment creation, establishment of industries & generating government revenue.

The revenue of government comes basically from two sources non tax & tax. Non Tax Revenue includes different sources likes grant & gift, administrative income, business income, similarly another source of government revenue is taxation. Customs, excise, vat, corporate & personal income taxes are the example of source of tax revenue. Among all the sources of collecting the public revenue, income tax is as the prime source. All types of business are bounded by obligation of income tax. No business can be free from that liability. The banking business can also not free from that condition. The source of government revenue is being largely created by banking sectors. Nowadays, the increment & growth of banking sector is in landing way to contribute government revenue. The government is being benefited by securing large amount of income tax from banking sector in the current scenario.

1.2 History of Bank

When, where & how the modern banking actually came in existence cannot be pointed out. But, from the different historical facts it reveals that some banking activities have been carried out since the time immemorial. At that time merchant, money lenders, goldsmiths, etc. performed the banking transactions. Later, the transactions started increasing & they became the activities of money exchange, securing the valuable goods, deposit money, lending money & so on. For all these activities, written receipts began to be used & modern banking started. In the historical age sources say that goldsmiths & money lenders contributed to large extent in the growth of banking system. They used to store people's gold by charging nominal charges, issued receipt to the depositors, which was goods for payments. Later, they started advancing money charging interest on it. So, the goldsmith & money lenders started performing the function of modern banking i.e. accepting deposits & advancing loans. However, the modern banking originated in Italy.

The word bank was derived from Italian word "Banco" which means accumulation of money or stock & getting the transaction to stay in bench. Bank as an institution was originated from Italy. The bank of Venice which was establishment in 1157 A.D. was the first bank in the history of banking & it was established of finance the monarch in the wars. The Bank of Barcelona Spain which was established in 1404 A.D. was the second bank in the world & then the Bank of Genoa was set up 1407 A.D.

The first central bank through was the Bank of England which was established in 1694 A.D. banking has come to the present advance from through various stages. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome & Mesopotamia. With large banking firms established in Florence, Rome, Venice & other Italian cities the banking activities spread through out of the Europe & it slowly spread through out the world.

In Nepal, modern bank establishment in 1994 B.S which is Nepal Bank Ltd. is the first banking institution in Nepal. Then after NRB establishment in 2013.01.14 B.S. as a Central Bank of Nepal. After establishment NRB, other commercial bank, joint venture commercial bank & financial institution are establishment in Nepal.

1.2.1 Commercial Bank

Commercial Banks means a bank which operates currency exchanges transactions, accept deposit , provides loan performs dealing relating to commerce except the banks which have been specified for the cooperative, agriculture, industry & other similar specific objectives there are 32 commercial bank in Nepal

There are 32 licensed commercial banks in Nepal. These commercial banks have given a new horizon to the financial sector of the country regarding healthy competition, foreign capital investment, technological transfer & experience & skills. The name of 32 licensed commercial banks are as follows.

Name of the Banks

| |
|--------------------------------------|
| 1 Nepal Bank Ltd. |
| 2 Rastriya Banijya Bank Ltd. |
| 3 Nabil Bank Ltd |
| 4 Nepal Investment Bank Ltd. |
| 5 Standard Chartered Bank Nepal Ltd. |
| 6 Himalayan Bank Ltd. |
| 7 Nepal SBI Bank Ltd |
| 8 Nepal Bangladesh Bank Ltd. |
| 9 Everest Bank Ltd. |
| 10 Bank of Kathmandu Ltd. |
| 11 Nepal Credit & Commerce Bank Ltd. |

| |
|--|
| 12 Lumbini Bank Ltd |
| 13 Nepal Industrial & Commercial Bank Ltd. |
| 14 Machhapuchhre Bank Ltd. |
| 15 Kumari Bank Ltd |
| 16 Laxmi Bank Ltd |
| 17 Siddhartha Bank Ltd. |
| 18 Agriculture Development Bank Ltd. |
| 19 Global IME Bank Ltd. 2 |
| 20 Citizens Bank International Ltd. |
| 21 Prime Commercial Bank / |
| 22 Bank of Asia Nepal Ltd |
| 23 Sunrise Bank Ltd. |
| 24 Grand Bank Nepal Ltd |
| 25 NMB Bank Ltd. |
| 26 Kist Bank Ltd |
| 27 Janata Bank Nepal Ltd. |
| 28 Mega Bank Nepal Ltd. |
| 29 Commerz & Trust Bank Nepal Ltd |
| 30 Civil Bank Ltd |
| 31 Century Commercial Bank Ltd. |
| 32 Sanima Bank Ltd. |

1. Standard Finance is merged with Machhapuchhre Bank Ltd.

2. IME Financial Institution Ltd. & Lord Buddha Finance Ltd. are merged with Global Bank and changed the name. (source: nrb.org.np)

1.3 Introduction of Siddhartha Bank Ltd.

Siddhartha Bank Limited (SBL), established in 2002 & promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen & share their valuable experiences towards the betterment of the bank. Within a short span of time, Siddhartha Bank Ltd. has been able to come up with a wide range of products & services that best suits its clientele. Siddhartha Bank Ltd. has been posting growth in its portfolio size & profitability consistently since the beginning of its operations. The management of the Bank has been thoroughly professional. Siddhartha Bank has been able to gain significant trust of the customers & all other stakeholders to become one of the most promising commercial banks in the country in less than 10 years of its operation. The bank is fully committed towards customer satisfaction. The range & scope of modern banking products & services the bank has been providing is an example to its commitment towards customer satisfaction. It is this commitment that has helped the bank register quantum growth every year. And the bank is confident & hopeful that it will be able to retain this trust & move even further towards its mission of becoming one of the leading banks of the industry.

Vision

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

Mission

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

leading banks of the industry in terms of profitability, productivity & innovation. Aim at total customer satisfaction by rendering efficient & diversified financial services through improved technology. Build a highly motivated & committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness. Be the place of pride to all its stakeholders.

Core Values of the Bank

Customer focus

Shareholder prosperity

Employee growth

Economic welfare

1.4 Statement of the Problem

Economic development is the prime concern of every nation. To fulfill this objective, every nation accomplishes various activities. Underdeveloped countries are facing serious problems regarding economic development. Nepal is also badly suffered from this condition. Economic development is possible through the industrial development of the country. Likewise, a sound tax system is one of the essential requisite for an economic progress. Nepal has been practicing different taxation policies with a view to ensure economic growth & reduce dependability to foreign countries. Basically this study has tried to review about the income tax contribution of Siddhartha Bank Limited. Moreover, it has attempted to find out the solutions & answers to the following question.

- How much income tax is being paid by SBL in different fiscal years,
- How is SBL building up government revenue through the means of income tax?
- What are the ways of tax planning adopted by SBL?

- What are the major drawbacks relating to income tax aspect?
- What are the possible ways to eliminate consider relating to income tax under ITA 2058?
- Is the income tax charged to banking sector favorable or not?

1.5 Objective of the Study

Each & every study has certain objectives. Regarding this study, the main objective is to get reflection of income tax mater of Siddhartha bank ltd. Further, it concentrates on effectiveness of income tax, practice of tax planning by SBL & possible recommendations relating to income tax aspect. In conclusion, the objectives of the studies are listed as follows.

- To review & analyze about income tax liability of SBL.
- To analysis the contribution of SBL to total income tax revenue as well as corporate tax revenue
- To analysis the problem faced by banking sector for assessing income tax liability.
- To find out which rate of Income Tax is suitable in Nepal.
- To provide suggestions & recommendations to foster the banking sector on the basis of the study.

1.6 Significant of the Study

The banking sector is regarded as crucial player to maintain progressive attainment of economic system. It supports to commence industrial sectors as well as their development & diversification. Moreover, it contributes income tax to generate government revenue. Income Tax collected from different financial as well as non financial sectors is the prime source of govt. revenue. By the amount of this govt. revenue, the national budgetary position of the country is determined. In the context

of Nepal about three quarter of the total govt. revenue is being collected through the mean of income tax. There are strong interrelation among taxation policy, business & economic growth. That is to say, a sound taxation policy promotes business & overall economic development. There are certain income tax rules to the banking as well as other sectors under ITA2058. This study specially keeps the importance in regard it tax liability of banking sectors, challenges & opportunities caused by it & possible suggestions & recommendations to foster banking sectors under income tax payers.

1.7 Limitation of the Study

Each & every study has its own limitations. No study can be free from its drawbacks & constrains. This study is also bounded by some limitations which are presented as follows.

- This study covers the time period of last 5 years.
- This study is partially based on secondary data collect from annual report, financial statement etc.
- This study is concerned about SBL contribution the income tax for govt. revenue. So, the conclusion drawn from this study may not be relevant for other commercial banks.
- This study examines & suggests only on the subject matter of income tax
- The reliability of this study is depending largely upon the reliability & validity of secondary data.
- This study is confined to Nepalese law, act, rules, ordinance, regulation & circular to income tax.
- This study is undertaken for the partial fulfillment of the master degree program.

1.8 Organization of Study

This thesis is organized into five major chapters.

Chapter 1: Introduction

This chapter is organized by background of the study, statement of problem, objectives of the study, signification of the study, limitation of the study & organization of the study.

Chapter 2: Review of Literature

This chapter is developed to review of various related books, journals, other publication as well as unpublished level dissertations.

Chapter3: Research Methodology

This chapter is about the methodology adapted in carrying out the present study. It explains the nature & sources of data, population of sample, data collection & processing technique & methods of analysis.

Chapter 4: Presentation & Analysis of data

This chapter is the major part of the study. This chapter includes presentation & analysis of data with the use of different tools, tables, graph & pie chart as well as major findings of the study.

Chapter 5: Summary, Conclusion & Recommendations.

This chapter is the conclusion or solution part of the study. It includes the summary & recommendation for further improvement & the conclusion.

CHAPTER II

CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE

2.1 Conceptual Foundation

2.1.1 Meaning of Tax:

The government of a country requires adequate revenue to carry out developmental activity to handle day-to-day administration work, to maintain peace & security & to lunch other public welfare activities. For that collection & accumulation of tax is necessary. Tax is one of the major sources of revenue collections of the government. It is a compulsory levy imposes by the government to the people & institutions of the country according to the prevailing laws. Professor, Seligman defined tax as “a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred”. This means those who pay tax do not get direct benefits from the government. Generally tax can be classified into two types. They are:

(a) Direct Tax: These taxes are collected directly according to income level of people or organization. Income Tax, property tax, land revenue tax etc. are the examples of direct tax.

Merits of Direct Tax

- It is equitable.
- It is elastic.
- Certainty.
- It enhances the consciousness of the citizen.

Demerits of Direct Tax

- It gives mental pinch to the taxpayers.
- Inconvenient to the tax payer.
- Tax evasion.

- Expensive for the govt. to collect tax individually.

(b) Indirect Tax: Indirect Tax is imposed on one person or persons paid partly or wholly by another or others. For example custom duty, excise duty, VAT., sales tax etc. are indirect tax. (*Sources: Tax Laws and Tax Planning*)

Merits of Indirect Tax

- To convenient to the tax payers.
- Mass participation
- Less chances of tax evasion.
- Control in the use of harmful goods.
- wide base

Demerits of Indirect Tax

- It is based on ability to pay.
- It is uncertain
- Bad effect on economic.
- Less consciousness of the citizens.

2.1.2 Objectives of Tax

As we know that tax is a permanent instrument of collecting revenue. The government mobilizes is revenue through the budget in development programs, daily administration, peace & security & public interest. Thus, good tax policies are considered as tools of social & economic resolution. The main objectives of tax are as follows.

- To rise more revenue.
- To prevent concentration of wealth in a few hands.
- To boost of the economy.
- To removed the regional disparities.
- To check the consumption of harmful goods.

- To increase revenue for welfare state.
- To increase employment, saving & investment.
- To implement the govt. policy.
- To control the production of certain goods

2.1.3 Canons of Taxation:

Canon of equality

Higher earner should be imposed higher tax as compared to the low earners. Tax policy should not discriminate the person with same income level.

Canon of certainty

Tax payer should feel certainty regarding time, place, tax amount & procedure for payments of tax.

Canon of convenience

The tax should be simple so that ordinary people can easily understand & follow it. Time of payment of tax, procedure of payment of tax, place of payment of tax should be convenient to the tax payers.

Canon of economy

The collected amount of tax should be greater than the collect cost of tax. Imposing tax should not give more burdens to the tax payer & it should be economical to the government too.

Canon of productivity

This principle refers that the fund raised through tax should be utilized in productive sectors. So that the tax payer can see the utilization of their hard earner money paid as tax.

Canon of flexibility

The tax rate should be flexible or changeable as per the need of country. It should not be rigid. As per increase or decrease in the income or property of the tax payer the tax rate also should increase or decrease.

Canon of diversity

Suitable tax system should be based on cannon diversity. Only one type of tax should not be imposed in the country because it gives burden on a specific group. For more participating of the tax payer, there should be different type of tax in the country. It helps in collecting more tax from various groups of tax payers.

Canon of simplicity

A good tax system should be simple & understandable. It should not be complex. The tax payment procedure should not be too lengthy.

Canon of neutrality

A good tax system should not effect negatively to the production & distribution system of the country. It should be facilitates to the production & distribution system. It should mot only consider how to increase tax revenue but also considered hoe to grow economy of the country. (*Sources: Income Tax Law*)

2.1.4 Concept of Income Tax:

Generally, income means the inflow of cash to the person or firm or Income Tax is well-known direct tax. It is considered as one of the major element of tax revenue. Income Tax is charged on person's income according to the law of the nation. It covers all the fees, additional fees fines etc. income includes all the income which is received from business, investment & employment. Income Tax is superior to other business because it is imposed on the basis of paying capacity of taxpayers. People, whose income is under the taxable income is free from the incidence of income tax. Income Tax is levied on consideration payment made for the provisions of

employment income or investment income or business income. The income which is earned during the income year from employment, investment & business have to be paid in certain percentage of income to the government by every individual citizen, firm & company is called income tax. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard & lower income from rendering various types of services, selling goods & producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood. It is an economic gain or receipt to a person during a particular period by way of wages, interest, profit & rent. The income of the people generally used for two purposes. Some part of the income is spent on consumption & some part is saved. But the purpose of taxation, the definition of income is some how different from the aforesaid definition. According to the Income Tax Act 1974 A.D. (2031 B.S.), "Income means the income earned or received in cash or kind from the sources mentioned in sec.5". In this section five different heads of income were mentioned. (ITA. 1974. A.D.) They were as follows:

1. Agriculture
2. Industry, Business, Profession of Vocation.
3. Remuneration
4. House & Land Rent.
5. Other Sources.

The existing Income Tax Act, 2002 A.D. (2058 B.S.), which has been enacted since 2058, Chaitra 19th (1st April, 2002 A.D.) has defined income in section 2(a) as; "Person's income from any employment, business as calculated in accordance with this act (ITA. 2002). It includes all sorts of income received for the provision of labor of capital or both of whatever form or nature in the taxable income. Income Tax refers to the tax levied on the income of a person & profits of corporation for the

specific time period, particularly one year. Income Tax is levied on the taxable income of a person or a company after deduction allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added & expenses are subtracted & losses, which are allowed to deduct under the provision of income tax act are also subtracted. Then, tax free incomes, allowances & common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount at tax to be levied on this computed income is the income tax.

2.1.5 Evaluation of Taxation

Great Britain is the first country in the world to introduce the modern income tax. This country introduced income tax in 1799 in order to generate revenue to finance the war fought with France between 1793 A.D. & 1816 A.D., which as Napoleonic war. This income tax law was enacted on January 9, 1799. which was the first modern income tax law in the world. It came into force on April 5, 1799 A.D. Since this was levied as a war tax it was repealed on April 5, 1802 A.D. after the end of the war with France at first. However, the income tax was reinstated in 1803 after the outbreak of war again with France on May 18, 1803 A.D. The new Income Tax Act was enacted on August 1st, 1803 A.D. as a war tax. It was abolished on March 18th, 1816, after the end of the Napoleonic wars. Income tax was proposed again on March 11th, 1842 A.D., as temporary measure for three years to generate revenue to enable government to avoid budget deficits while carrying out major tariff reforms. This tax was not abolished even after the lapse of three years because of its yield accepted as a permanent tax by the 1980s.

In the USA also income tax was introduced in 1862 A.D. to generate revenue to finance civil war. The federal corporation income tax was introduced in 1909 A.D. In Japan, income tax was introduced in 1887 A.D. through the enactment of the Income

Tax Law on March 23rd, 1887 A.D. It was a general individual income tax & extended to the corporate income in 1899 A.D. Although the income tax had been levied in different form before the unification of Germany in 1871 A.D., income tax became an effective instrument since the Prussian Reform of 1891 A.D. In India, while income tax in its modern form was adopted in 1860 A.D., several experiments were made from 1860 to 1886 A.D. & finally the systematic income tax legislation was enacted in 1886 A.D. Income Tax was introduced in Switzerland in 1840 A.D., Austria in 1849, Italy 1864, New Zealand in 1891, Canada in 1892, Holland in 1892-93, Australia in 1895, Denmark in 1903, France in 1909, Sri Lanka in 1932, Venezuela in 1943, South Korea in 1948, & Nepal in 1959 A.D. Similarly, this tax system was adopted by many other countries over the years & had undergone considerable changes in those countries that have already adopted it. The main features of the changes in the income tax system over the years are as follows:

- The first income tax adopted by Britain was based on the global principle. However, the 1803 A.D. version of the English income tax was based on scheduler system.
- There has been a different practice in other countries in different times. Initially, income tax was limited to the income generated within the country but with the globalization, taxation of worldwide income came into vogue.
- Most of the developed countries levy tax on the worldwide income of their residents while some developing countries levy tax only on income generated within the country.
- There have been different practices regarding the taxation of individuals & companies. Some countries such as Japan initiated with the taxation of individual & brought companies into the tax net after a few years of the implementation of income tax. In some countries, such as Nepal, initially both individuals & companies were taxed in the similar way but later on they were taxed in different ways, companies with a flat rate & individuals with progressive rates.

- There are different practices regarding the assessment of income tax. The tax is assessed under the official assessment system in some countries while assessed by the taxpayers themselves in some other countries. Official assessment was common in the past but self-assessment has become popular in the recent times, although the concept of self-assessment already adopted in Britain in 1803 A.D.
- The history of income tax is tumultuous, the situation is different now. Income Tax has an important element of the modern tax system. This tax system has been adopted by all sorts of countries levied as an important instrument to generate revenue required to finance state activities. Thus tax is also considered as a fairest tax since it can be tied with the taxable capacity of the payers. (Nagpal, 1960)

Tax in Rana Regime (1846-1950 A.D.) Imposition & collection of taxes during 104 years oligarchic rule of Rana family in Nepal prior to 1951 A.D. was the prerogative of the feudal rules only those taxes, which suited the objectives, needs & whims of the ruling prime minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act & Finance Act. The collected taxes were directly deposited in the Prime Minister's Account, custom & excise duties in the form of lump sum contracts, royalties on felling tree, royalty on supply of porters & soldiers, entertainment taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis & Salami which the government employees used to pay out of their salaries at a very small percentage. Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extra ordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During the Nepal-Tibet war (1855-56 A.D.), the first Rana Prime Minister of Nepal Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsheer imposed a levy of 1% in the official value of Jagir assignment of government employees in 1891 A.D., to finance the transportation of

water pipe supply in the capital. Ranadip Shingh imposed a 50% tax in the income made by fisherman in Deukhuri from the sale of fish in 1882 A.D. Like this taxes were collected during Rana Regime. (Khadka, 1994) (*Sources: Modern Taxation in Nepal: Theory and Practice*)

2.1.6 Modern Income Tax in Nepal

The modern Income Tax act was started in Nepal in the year 1959 A.D. After the political revolution in February 1951A.D. (2007 B.S. Falgun), the role of government had been increased to developmental as well as philanthropic work. The government of Nepal had presented its first budget in 1952 (2008 B.S. Magh 21). The first five year plan started in 1956 A.D. (2013B.S.).The planned activities of the government needed huge amount of sources & means. So, huge revenue was demanded & Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959 A.D. (2016 B.S.) to impose tax on Business Profit & Remuneration. In 1960 A.D. (2017 B.S.), the Income Tax Act named "Business Profit & Remuneration Act, 2017 B.S." was made with the provisions of finance ordinance 1959. That was the first Income Tax Act, which had 22 sections. But that act was found narrow & vague. So, it was replaced by the Income Tax Act, 1962 A.D. (2019 B.S.). That act continued for 12 years & that was also replaced by the Income Tax Act, 1974 A.D. (2031 B.S.), which was amended for eight times & existed for a period of 28 years. That income tax act was replaced by new Income Tax Act, 2002 A.D. (2058 B.S.) under which the present rules & regulations of income tax are exercised & carried out. This is the fourth Income Tax Act of Nepal about which brief explanation is stated in the following topic. (Khadka, 1994)

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

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, & to amend & integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 A.D. (2058B.S.) since first April 2002 A.D.(19th Chaitra, 2058 B.S.). This act was enacted in Nepal to avoid the following defects of Income Tax Act, 2031. (Kandel, 2004).

- I. Narrow base of tax.
- II. Levying tax only on the income originated in Nepal.
- III. Dispersion of tax related acts, i.e. income tax related provision were in different act.
- IV. Low penalty rate to tax evader.
- V. Incompatible to self-assessment, &
- VI. Unsuitable to modern economy.

The main objectives of ITA, 2058 are presented below:

- To levy tax on all income sources & income earning transactions.
- To impose uniform tax to all people & all sources.
- To make income tax revenue more productive & elastic.
- To develop the tax system by means of extended scope, clear-cut, transparent & simple procedure.
- To make accountable & improved tax administration.
- To reduce economic cost neutralizing income tax.
- To emphasis statement based an accounting system.
- To make the taxpayers responsible by introducing the process of self assessment system.
- To integrate Nepalese tax system with the tax system of foreign countries.
- To minimize tax avoidance & tax evasion.

Income Tax Act, 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this Act as compare to Income Tax Act, 2031. Many of the concepts have been put forward in this act were not prevailing at Nepalese tax culture. This act contains 143 sections. The key features of Income Tax Act, 2058 are:

- All income tax related matters are confined within act by abolishing all tax related concessions, rebates & exemption provided by different acts.
- The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates & concessions are harmonized on equity ground.
- The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
- The Act has firstly introduced taxation on capital gains.
- The Act has provided liberal set-off & carry forward / backward provisions & inter head adjustments of losses are clearly specified.
- The act has provided a stringent fine & penalty for the defaulters.
- The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administration internally.
- Global income of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.
- List of expenses is inclusive. All expenses relating to income have been made admissible.
- The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.

The act has separated administrative & judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities (Bhattarai & Koirala, 2007)

2.1.8 Tax Evasion, Tax Avoidance & Tax Planning

There is nothing which hurts more than payment of taxes. One question that goes through every tax payer's mind is "how can I reduce my tax liability?" reducing tax liability is not always a bad or illegal exercise. There are legitimate ways to reduce taxes through proper tax planning & such methods are always encouraged. But unfortunately, there is also a tendency to reduce tax through illegal methods. They are not accepted practice & can invite problems there are three methods which are commonly used by the taxpayers to reduce their tax liabilities

Tax evasion,

Tax avoidance &

Tax planning

Tax Evasion

Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, falsification of accounts & willful violation of the provisions of the Income-Tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases.

Tax Avoidance

Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is the act of doing without directly breaking the law. For example if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife & B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Such practices are not acceptable. In the words of Justice Rang Nath Misra of Supreme Court in the case of McDowell & Co Limited v CTO [1985] 154 TR 148,

“Tax planning may be legitimate provided it is within the framework of law. Colorable devices cannot be part of tax planning & it is wrong to encourage or entertain the belief that it is honorable to avoid payment of tax by resorting to dubious methods.”

Tax Planning

Tax planning is arrangement of financial activities in such a way that maximum tax benefits, as provided in the income-tax act are availed of. It envisages use of certain exemption, deductions, rebates & relief provided in the act.

Features of Tax planning

The main features of tax planning are as follows.

- It is the genuine use of the facilities provided by the government.
- It enhance economic environment of country.
- It reduced tax liability
- It is universal of nature. It means all the business organizations use tax planning.
- It is a use of dignified facilities.
- It is use of enterprise to get consciously given facilities,
- It is related to future activities.
- It is legal, ethical & economic

Importance of Tax planning

Tax planning has certain importance. The major importances are as follows.

- It saves tax & increase profitability.
- It avoids unnecessary worries, tensions & administrative hassles.
- It helps in increasing working capital.
- It helps in analysis of risk
- It helps in an increase of profit distribution.
- It creates easiness in day to day.

- It enhances the inventory opportunity & competitive analysis.
- It helps up grading technology.
- It creates good business environment.
- It helps in development of manpower

Significance or Objective of Tax planning

The following are the objective of tax planning.

- Reduced the tax liabilities.
- Productive investment.
- Healthy growth of the economy.
- Economic stability.
- Minimization of litigation.

Scope of Tax planning under Income Tax Act, 2058

Under the income tax act 2058, tax planning can be divided in to heads

- i. Strategic or long term tax planning.
- ii. Operational or short term tax planning.

Strategic or Long Term Tax Planning.

Strategic tax planning is normally for a long period & it may not be immediately. As per ITA 2058, Areas for strategic or long term tax planning can be as follows.

- Nature of business.
- Selection of organization.
- Selection of product & location.
- Selection of sources of capital.
- Size of business.
- Merging of business.

Operational or Short Term Tax planning.

As per ITA 2058, Areas for operational or short term tax planning can be as follows.

Acquisition of fixed assets

- Repair & improvement cost.
- Pollution control cost.
- Research & development cost.
- Donation.
- Loss recovery.
- Remuneration of employees.
- Stock valuation.

2.1.9 Tax Incentive

An income tax is a disincentive to save or invest & thereof, the incentive is to mitigate the disincentive. Tax incentives may imply a partial or complete exemption from one or a variety of taxes & special allowances for certain period to motive the behavior of investor. The main aim of tax incentive is to increase saving & to encourage, channelize the investment to desired area of sector. It is supposed that they encourage investment in selected manufacturing activities or improvement of product quality of utilization of domestic resource in manufacturing (Kandel.2001, 58). The incentive is becoming an integral part of the tax system for accelerating the pace of industrialization in most of the developing countries. It reduces the tax burden of an organization. The necessity for offering tax incentives is felt basically for two reasons. They are stretching the scope of tax beyond its revenue objective to achieve certain social economic ends & to mitigate the adverse impact of high taxation on corporate saving & investment activities.

2.1.10 Historical Background of Tax Incentive.

Economic theory introduces potential concerns regarding tax incentives. Economic theory states that tax incentives will always cause some distortions in the economy &

at the worst they can be counter productive. There has been much written on tax incentives & there are some caveats that should be considered before implementing any tax incentive policy.

Tax incentives system was introduced many decades ago as method of mitigating the tax burden in investments. The use of depreciation many years ago is an example. Other types of investment incentive were also nit introduced at once but gradually in different countries of the world. (Kandel, 2001:63)

The first tax incentive system was introduced by UK in the form of the depreciation in the depreciation period of 1880s. The incentives were added in the form of carry forward of losses in 1890, other incentives in 1944 & cash grant system in 1967. Mexico introduces the tax incentive 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 & widely spread in the world. Tax incentive became so much popular that the competitors between the developed & developing country became incentive to attract incentive.

One after another, other country also introduced the tax incentive system to attract the investment in various sectors. Philippines introduced the tax incentive in the year 1946, India in 1948, Malaysia in 1985, Thailand in 1960 & Ghana in 1950. The Asian economic country Japan introduced tax incentive in the year 1950. Tax incentive system became very much popular in the decade 1950s.

2.1.11 Tax Incentive in Nepal.

Tax incentive in Nepal ha 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 incentive to industries two years tax holiday to newly establishment industries, tax rebate of 25% of the tax liability on the decision of His Majesty Nepal

to the operating industries, full & partial rebate of the tariff for exporting goods & importing machineries parts & raw materials.

The industrial enterprises act 1974 had given various incentives to industries, which are tax holiday of up to 18 years to the industries established in the different parts of the countries, investment & depreciation facilities to extension & modernization of industries, relief of excise & import duty etc.

The third industrial enterprises act was enacted in the year 1981. This act had given the incentive to industries are tax holiday up to 12 years to industries, income tax rebat of up to 50% for export, an allowance of 15 % to new investment, only 1% levy for import of, machinery, spare parts & materials, exemption of excise duty to different types of industries, exemption of sales tax to cottage industry in important of machinery, spare parts etc. & domestically produced goods.

In comparison to above act, the industrial act 1992 has given more incentive. Those incentive are maximum rate of tax to be charged to industries as 20% except those related to tobacco & alcohol, complete exemptions of income tax, sales tax, exercise tax etc. to the cottage industries, additional depreciation facility of 33% to the industries, deduction of 10% of gross income for research & technology development expenses, a rebate of 10% to industries not related to tobacco, alcohol, some mill & khadha industries using 100% of Nepalese labors & 80% more of Nepalese raw material, investment allowances of 49% 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 cost from the taxable income, provision of different types of sales tax excise & custom rebate to industries, sales tax exercise rebate up to 13 years to fruit processing & fruit based wine producing industries located in remote areas.

Besides these incentives amendment in the act has given the facilities to industries are ten years 50% tax holiday to the national priority industries related to the construction

of roads, bridge, tunnels, rope ways, flying bridges, trolley buses & train, seven years 50% tax holiday to other national priority industries other than the above, tax rebate of 30%, 25%, & 20% to the industries established in the remote, underdeveloped & undeveloped areas specified in the appendix 3 of industrial enterprises act 1992, no doubt taxation on raw materials used by industries.

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 & exemption in export income act are same examples.

2.1.12 Types of Tax Incentive

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

- Tax holiday.
- Accelerated depreciation.
- Set off & carry forward of losses.
- Investment allowance.
- Incentive for development of specified areas.
- Incentive for research & development.
- Incentive for install pollution control device.
- Expert incentives.
- Amortization of preliminary expenses.
- Employment incentive.

2.1.13 Tax Administration

Tax administration refers to the management affairs in regard to tax. A sound system of tax administration is pre requisite to assess the taxation policies of the government. It is handled by income tax authorities.

Income Tax is administered directly by the Inland Revenue Department. It is responsible for the implementation & administration of the act. His Majesty's Government is the highest authorities of the tax administration. The following officers & other staff may be deputed in the department.

- Director General.
- Deputy Directors Generals in the numbers as may be required.
- Chief Tax Administrators.
- Directors.
- Chief Tax Officers.
- Tax Officers.
- Other Officers &
- Other Staff.

Income Tax ACT, 2058 had empowered HMG/Nepal as regards to the implementation of the tax laws. The rights of HMG/Nepal with respect act, 2058, are:-

- Right to make double tax avoidance treaty with other countries to avoid the situation of double taxation.
- Right to establish or remove tax office for the purpose of collecting tax. It has also the right to appoint tax officers & delegate power.
- Right to allow unlimited amount of donation given to tax exempt organization by publishing a notice in Nepal Gazette.
- Right to make rules regarding tax for fulfillment the objective of the act.
- Right to make changes as required in schedules other then schedules.
- Right to remit in whole or in part of any tax payable by a person if the tax cannot be collect.
- Right to issue an order or direction to Inland Revenue Department for the purpose of making tax administration effective.

2.1.14 Power of Department

Inland Revenue Department can exercise the following power given by ITA, 2058 & income rule, 2059

- To take an official action against its employees.
- To exercise power of the court for the purpose of this act.
- To develop & issue directives as required.
- To order for payment of penalty amount
- To decide the exempt amount.
- To specify about the long term contract.
- To specify accounting methods.
- To characterize the amount in advance on the basis of arm's length principle.
- To approve retirement fund.
- To give pan & amend it as per request.
- To provide tax clearance & exemption certificate.
- To specify taxpayers who are not required to submit returns.
- To specify the place of action.

2.1.15 Rights of Director General (DG)

Director's General subject to direction by HMG can.

- Exercise any power granted to the department under the act.
- Delegate the exercise of any of the power to another officer.
- Where there is no tax office, assign any of the officers in the civil service to exercise all or any of the powers other than other.
- To issue the public circular under section 75
- To prescribe documents under section 77

- To stay or otherwise affect a review able decision under section 115.5
- To allow or disallow the objection by any person in whole or part under section 115.7
- To compound an offence under section 129
- To authorize any officer under section 82.

2.1.16 Right of Assesse/ Taxpayer

A taxpayer means a person (An individual or entity) whom the tax is imposed on & realized from as per income tax act, 2058. As per section 74 of the act, the payer with respect of paying tax is entitled to enjoy the following rights.

- Rights to get respectful behavior.
- Right to receive tax related information as per prevailing law.
- Right to get the opportunity of submitting proof in own favor in respect of tax matters.
- Right to appoint lawyers or auditors for defense &
- Right to secrecy in respect of tax matters & keeps it inviolable.

Besides these, the taxpayer can enjoy the following rights.

- Right to obtain clarification on personal advance rulings.
- Rights to get refund of excess tax paid.
- Right to receive public circulars.
- Right to appeal to review the decision
- Right to extend time to file return.

2.1.17 Duties of Assesses/ Taxpayer

The act has not categorically specified the duties of taxpayers. However, to enjoy the rights as per the act, the taxpayer is required to fulfill following duties in accordance with the act.

- To register & get permanent account number (PAN)
- To follow/adapt accounting method prescribed HMG
- To maintained books of account & other documents properly
- To pay tax in installments or deduct tax at source.
- To file returns within stipulated time.
- To attend tax office, if file is order to do so.
- To accept evidence issued by tax office as notification of tax payable.
- Not to oppose tax officials in performing their duties.

2.1.18 Review of Previous Study

Since the period of introduction of income tax system in Nepal, many individuals as well as some institutions have made efforts on study of taxation the ways for the improvement of income tax system in Nepal in every aspect of income tax. Many books, research report & articles have been published in this respect. While doing researches & preparing the thesis some books, thesis & some articles concerning with income taxation have been consulted. Some of them are presented below in brief.

2.1.18.1 Review of Books

Agrawal, G.R. (1978), a senior researcher in the field of Nepalese taxation, had conducted a research entitled, “*Resources Mobilization for Development: The Reform of Income Tax in Nepal.*” The main objectives of his study were to examine the problem of growing resources gap in Nepalese finance in the context of the role of income tax, and elasticity of income tax in Nepal including projection of income tax, to examine the ways and means for increasing tax in Nepal

Agrawal, G.R. (1980), had submitted a report entitled “*Resources mobilization in Nepal.*” published by CEDA. The report had been divided into eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal policies in developing nation and Nepal and third chapter looks at income tax in

Nepal from the historical perspective, the fourth chapter deals with structure of Nepalese taxation. In this chapter, writer had concluded the predominant role of indirect taxes in Nepalese tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, the role of income tax had been increasing since 1974/75 A.D. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administrator, tax lawyers, accountants and tax payers of different parts of Nepal. From the study, he had concluded that Nepalese tax payers were favorably disposed to income tax. However, the major constrains in the effective functioning of tax system seems to be administrative deficiencies, poor taxpaying habits, lack of tax payer's education, complicated procedures and defective tax information system.

Paudyal, S.R. and Timilsina, P.P. (1990), presented a book of income tax named "*Income Tax in Nepal.*" They described the theoretical as well as practical aspects of income tax. The book was fully based on T.U. syllabus prescribed for B.Com. They did not describe the problems of income tax system and structure of Nepal. The book was descriptive rather than analytical.

Tiwari, N.R. (2050), published a book named "*Income Tax System in Nepal.*" He described the legal provisions relating to income. He also described the process, provisions and methods to assess the income with numerical examples. The book was based on T.U. syllabus. Tiwari did not describe the role of income tax in economic development of Nepal and problems of income tax system. His book was descriptive of legal provisions rather than analytical.

Dhakal, K.D. (2001) published a book named "*Income Tax and House and Compound Tax Law and Practice with VAT Act, 2052.*" Dhakal described the legal provisions relating to income tax with numerical examples. This book is very useful to know about legal provisions of Income Tax Act, 2031 B.S. The book was fully based on T.U. syllabus. His book was informative rather than analytical. He did not mention the role of income tax and structure of income tax.

Adhikari, B.D. (2002), published a book named “*Income Tax Law: Then and Now.*” Adhikari described the legal provision of new Income Tax Act, 2058. Adhikari also described the decisions made by Supreme Court about income tax. Adhikari described the legal provisions with critical analysis. His book was very useful to know the New Income Tax Act 2058 but not analyzed the role of income tax and income tax structure. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscals evasions with respect to taxes on income between different countries had also included in his books.

Bhattacharai, I. and Koirala, G.P. (2004), published a book named “*Income Taxation in Nepal with Tax Planning and VAT.*” This book was published second and third time in 2061 and 2064 B.S respectively. The book has described the legal provisions with critical analysis. The book has enough theoretical and practical problems. The book also had added Income Tax Act, 2058 and Value Added Tax Act, 2052. The book also has described brief study about the tax planning. This book is very useful to know the New Income Tax Act with Tax Planning and VAT but not described the Role of Income Tax and Tax Structure.

2.1.18.2 Review of Research Reports and Articles.

United Nations Organization (1997), published a journal on public finance entitled, “*Guidelines for Improving Tax Administration in Developing Countries*”. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration are explained in two separate sub topics i.e. guidelines for appropriate initiatives & underlying consideration & explanatory commentary. Functions of tax administration are identification & registration of tax payers, tax payer’s education, information provider & assistance etc. The study had

detail explained their functions & recommended some valuable suggestion to the developing countries.

Kandel, P. (2001), published “*A Draft of Income Tax Act 2058: A Critical Analysis.*” Kandel criticized the Income Tax Act 2058 on several grounds such as exemption of agriculture incomes from income tax export duties levied on export, inequality between different capital earned income, withdrawal of exemption & adjustment for inflation. Kandel further criticized the act for the provision of income tax.

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

Kandel, P.R. (2004), presented an article entitled, “*Are Tax Incentives Useful? If so, Which One?*” published in journal of finance & development. In this article Kandel tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan & other investment countries. Kandel found that tax incentives are still the controversial matter whether they promote the investment or not but

Kandel argued the most of the developed countries used tax incentives. As per the studies done in various countries, the conclusion is that among different types of tax incentives, investment allowance or investment tax credit & accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Mean while most of the researchers have opposed the tax holiday system both with in Nepal & outside Nepal. Kandel further added the survey of studies indicate the accelerated depreciation system has positive impact on investment. The work of reducing tax rate specially followed after 1990s to such lowest rate was not a proper decision. That's why if Nepal wants to go to tax incentives system again, investment allowance or investment tax credit, not the full holiday in future should be adopted in future.

Neupane, L.B. (2007), had published an article in economic bulletin 'Rajaswa', "*Contribution of Income Tax to Total Tax Revenue*" which shows the contribution of income tax to total tax revenue, has decreased from 23.93% to 20.83% in the FY.056/057 to 061/62. It may be due to the collection of the property tax by municipalities. But it is not only the cause. Emphasis should be given to the income tax collection. To facilitate tax collection, Inland Revenue Department has implemented E-TDS, E-Pan & E-Filing for the better tax compliance. There is provision of tax plate also. But the frequent change in the act decreases tax compliance which is a major drawback on instable political condition.

2.1.18.3 Review of Dissertations and Thesis

Shivakoti, C. (1981), presented a dissertation entitled "*Income Tax System in Nepal & Some Potential Areas for Reform*" T.U. In this study, Shivakoti tried to show the tax structure in Nepal, role of income tax in Nepalese economy, income tax administration & tax evasion in Nepal along with reforms. Shivakoti had more

emphasized on the income tax administration & tax evasion. Shivakoti conducted an opinion survey about the sufficiency of tax incentives & tax holiday to the industries. He took the sample of twenty six respondents, out of them sixteen were in positive & ten were in negative response about the sufficiency of tax incentives & holidays. According to the respondents, following informatory activities should be perfumed.

- There should be prize system which may be as the form of tax incentives or holiday to the taxpayers.
- The period of tax holiday should be extended for industry, which utilized Nepalese raw materials & produces handicrafts.
- For the expansion of industry, additional incentives should be provided.
- The items of deductions should be added.

Khatiwada, A.K. (2004), conducted a research entitled, “*Structure of Income Tax System in Nepal, A Managerial Study*,” T.U. Khatiwada aimed to evaluate the structure of income tax system & managerial study. Khatiwada accepted that ITA, 2058 & provisions are difficult to understand, language is vague & unclear, narrow base i.e. agricultural income has not been included in tax net, provision of double taxation in dividend, insufficient provisions related to capital gains. Khatiwada also analyzed the income tax management system in Nepal is not effective & efficient due to ineffective management system, inadequate government policy & defective income tax laws objectives. He also mentioned the objectives & major constraints of effective & efficient income tax management system are:

Objectives:

- Lack of motivated & trained human resources.
- Inadequate experts in tax management, non-maintenance of books & accounts, time consuming process of income assessment i.e. not scientific assessment.
- Misuse of power by tax administrators.
- Less consciousness of taxpayers.

The Major Findings

- Income tax assessment procedure is not sound & effective.
- High level of evasion found in income tax.
- Income tax administration a high degree of corruption has been found.

Niraula, B.S. (2005), did a research study named, “*Study of Incentives & Facilities to Industry under Income Tax Act, 2058*,” T.U. This study aimed to examine & analyze the effectiveness of tax incentives & facilities to industries conducted that:

- Income Tax incentives & facilities do not play the major role in the establishment of industries but other factors such as political stability industrial environment, administrative efficiency & availability of market, raw materials, labours, infrastructures etc. play key role in establishment of industries. If these facilities are available, the incentives & facilities provided by the ITA might play major role in the establishment of industries.
- Investment tax credit & investment allowance play vital role in the establishment of new industries.
- A flat rate of 20% income tax to all industries seems to be little bit higher to small industries.
- A deduction facility of PCC & R&D had been tremendous effect to achieve its objectives & industries are exploiting these facilities.
- Tax rebate of 25% & 30% to the undeveloped & underdeveloped areas not sufficient.

The Major Findings:

- Investment tax credit & investment allowances should be provided to new industries.
- The rate of 20% to the export industry is higher & it should be minimized.
- Contradiction between the Income Tax Act & Industrial Enterprises Act should be eliminated.

- To make aware about the tax incentives & facilities to current taxpayers & potential investors in time to time.

Baidawal, K. B. (2009), has submitted a MBS thesis entitled “*Effectiveness of Income Tax System in Nepal.*” The study had described the conceptual framework, legal provision, composition of total revenue in Nepal, problem of resources gap in Nepal & public awareness toward income tax system in Nepal. He undertook the research work to find out the problem regarding to revenue & expenditure.

Objectives

- To analyze the effectiveness of income tax system in Nepal.
- To evaluate the contribution of income in national revenue.
- To evaluate present income tax administration.
- Income Tax can be used as positive collection to develop the economic condition of Nepalese people.

The Major Findings:

- Tax payers should be highly literate by conducting seminar, workshop and interaction.
- The income tax assessment procedure must be improved by reducing assessment delay.
- Reducing delay on the best judgment to taxpayers and
- Creating the confidence between taxpayers and tax officers.

2.1.19 Research Gap

All the research studies mentioned above are concerned with the study of the taxation system, income tax contribution to revenue collection, taxation knowledge by the taxpayers etc. During the research study, the researcher viewed, various books, reports & articles were found to be study on the similar topic. That is why; the chosen topic "**Contribution to the Income Tax Revenue from Nepalese Banking Sector**

with Special Reference to Siddhartha Bank Ltd." is very new & interesting. The previous studies were found to be studied by using the old data. So, they could not meet the requirement of the present context. But, this study is based on latest data. The data taken in this study for five years begins from fiscal year 2006/2007. The previous researches were found to have studied on income tax mater of different manufacturing companies, non manufacturing company, & financial institution other than Siddhartha bank Ltd. But, this study is based on Income tax Revenue aspect to Siddhartha Bank Ltd. This study is trying to review Income tax liability of SBL, evaluate the effectiveness of Income tax in regard to build up government revenue, study on practices of tax planning executed by SBL & assign suggestion & recommendations to foster banking sector on the basis of the study.

This study differs from other studies due to having new topic & new objective which was not studied previously. Moreover, the way of analyzing & presenting the data is also unique as compared to the previous studies. So, this research is quite new & interesting research program & hope that it will be useful for students, researchers & investors as well as business organization related to the bank to collect the related information from it.

CHAPTER–III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with detail discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. In other words, research methodology describes the methods & processes applied in the entire aspects of the study.

Research methodology is process of systematic & depth study or search any particular topic, subject, or area of investigation back by collection presentation & interpretation of the relevant details of data.

Research is a systematic & organized effort to investigation a specific problems that needs solution. This process of investigation involves a series of well through out activities of gathering, recording, analyzing, & interpreting the data with the purpose of finding answers the problem.

The chapter is divided into six parts as Research Design, Population & Sample, Nature & Sources of Data, Data & Information Gathering Procedure, Data Processing Analysis Procedures, & Weight of Choice.

3.1.2 Research Design.

Research design is a plan, structure & strategy of investigation so as to answer to research study questions. The research study attempts to analyze the present condition of this study includes an out line of what the investigator will do from writing the hypothesis & their operational implementation to the final analysis of data. The structure of the research is more specific, it is the outline, the scheme, & the standard of the operation of the variables. When we draw diagrams that outline the variables & their relation is justification, we build structure schemes for accomplishing

operational research purposes strategy, as used here, is also more specific than plan. In other word strategy implies how the research objective will be reached & how the problem encountered in the research will be tracked. The method & definite technique, which guides to study & give ways to perform research work is known as research design. It is most necessary to complete the research & fulfill the objective of the research. First of all information & data are collected. The important information & data are select. Then data is arranged in useful manner. After that, data are analyzed by using tools. In analysis part, interpretation & comments are also made wherever necessary. Result & conclusion are given after analysis of data, recommendation & suggestion is also given, the thesis has been adopted from previous research works. Previous thesis styles & format have been follows. Contribution to the Income Tax Revenue from Nepalese Banking Sector with Special Reference to Siddhartha Bank Ltd. is concerned with past phenomena as well as opinions. The collected data & information are described & analyzed by using different statistical tools. That is why the study has followed the descriptive as well as research design.

3.1.3 Nature & Sources of Data.

This study is partially based on secondary data, which are collected from their respective annual reports, especially from Profit & Loss A/C, Balance Sheet & other publications made by the Siddhartha Bank Ltd. Similarly ,some other related information are gathered from related agency like Nepal Rastra Bank, Ministry of Finance, National Planning Commission, Auditors General Reports & Various related Journals in Management & other publications.

3.1.4 Population & Sample.

At the present context there are 32 commercial bank & many other different financial institutions. Due to time & resource constraints, it is not possible to study all of them. So, to make easier one bank is selected out of many financial institution which is Siddhartha Bank Ltd. Moreover, for obtaining opinions in regard to income tax aspects of different personnel, opinion survey is conducted by using primary data collection procedure. For that, a questionnaire is made & distributed to different group of people. Particularly, they are tax administrators, tax experts & bankers. The selected tax administrators are associated with different Inland Revenue Department. Similarly, tax experts have been chosen from different chartered accountants, lecturers, section officers of ministry of finance, economists & auditors. Finally, bankers have been taken from different commercial banks.

The total numbers of responders taken as sample for opinion survey is 75. Out of them, 25 respondents are income tax administrators, 25 respondents are income tax experts & the rest of 25 are bankers.

3.1.5 Data & Information Gathering Procedure.

The data used in this study is partially based on secondary data. The study is based on secondary data provided by Siddhartha Bank Ltd. as well as other relevant sources. Similarly some other related information is gathered from related agency such as Nepal Rastra Bank. Nepal Stock Exchange, Ministry of Finance, T.U., Central Library, National Planning Commission, Auditors General Reports & Various related Journals in Management & other publications.

3.1.6 Tools & Techniques of Data Analysis.

The data from primary & secondary sources are tabulated initially into distinct format. For the analysis, all collected data & information of various aspects of

income tax were arranged in order & processed. Then, the descriptive tools & statistical tools such as simple percentage, rank, simple graphs, charts, bar diagrams, table & trend line, figures etc. according to the subject in order have been applied in the way of analysis so that the findings could be presented & interpreted precisely & properly in order.

Statistical Tools

In the present study, certain statistical tools have been used to compare the figure & draw one meaningful conclusion there from. The statistical tools have been description presented hear.

1. Mean (\bar{X})

The most popular & widely used measure of representing the entire data by one variable is the arithmetic mean. All items number obtained are added together at first & then divided by number remaining is mean value. Mean values of the different represent s the average value for the study period.

$$\text{i.e. } \bar{X} = \frac{\sum X}{N}$$

2. Standard Deviation (σ)

The standard deviation measures the absolute value of risk, i.e. variability of the returns from the means returns. It is also known as root mean square for the reason that it is the square root of the squared deviation from arithmetic mean.

Symbolically

$$\text{Standard Deviation, } \sigma = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Where x = Variables
 n = Number of variables
 \bar{x} = Expected rate of return.

3. Coefficient of Variation

As noted above, the standard deviation is the absolute measure of risk. In the case of the different mean returns, it misleads to the invalid decision. Hence, to overcome on such a problem, a standardized per unit risk can be used to measure the risk which is called coefficient of variation. It indicates risk per unit of average return. Variability in return (i.e. the risk) has been measured by the coefficient of variation. In this study, coefficient of variation has been computed to show the bank wise variability or risk return relationship in respect of interest rate & rate of return on total investment. It can be computed by dividing the standard deviation by average rate of return.

Symbolically,

$$\text{Coefficient of variation, C.V.} = \sigma / \bar{X} \times 100$$

Where, σ = Standard deviation

\bar{x} = Mean rate of return

4. Karl Person's Correlation Coefficient

In simple correlation given the relations between two variables. In other words, correlation is defined as the relationship (or association) between (among) the one dependent variable or factor & other (or more than one) independent variable (S) or factor (S). Thus, correlation is a statistical tool which determines the degree (extent) & direction of correlation. It helps in studying the variance of two or more variables. There is several method of analyzing the correlation between the two variables such as Graphic Method, Least Squared Method & so on. Among them Karl Person's Correlation Coefficient is most widely used in order to establish the relationship between the returns of SBL. Karl Person's Correlation Coefficient measures the degree of association between the two variables, say X & y, & is denoted by.

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where,

r = Coefficient of correlation between X & Y

$\sum XY$ = Summation of multiple of variables X&Y

$\sum x^2$ = Summation of square of variables X

$\sum Y^2$ = summation of square of variable Y

N= Number of observations.

5. Trend Analysis

Trend analysis is one quantitative used to determine patterns in data collection overtime. It is also known as time series analysis. It is used to detect patterns of change in statistical information over regular intervals of time. In our study, two method of least square & graphic method are used for determining trend.

6. Probability Error (P.E)

P.E. interprets the value of correlation co-efficient. It helps to determine applicability for the measurement of reliability of computed value of the correlation coefficient 'r'. It can be calculated as:

$$P.E. = \frac{0.6745 \times (1-r^2)}{\sqrt{N}}$$

Where,

r= Correlation coefficient.

N= Number of pairs of observations.

If the value of r is less then 6 times of probable error there is no evidence of correlation, i.e. the value of r is not significant. If the value of r is more than 6 times of probable error the coefficient of correlation is practically certain, i.e. the value of r is significant.

CHAPTER-IV

PRESENTATION & ANALYSIS OF DATA

4.1 Introduction:

This chapter entitled as presentation & analysis of data constitutes the most crucial part of the study. It provides a mechanism for meeting the basic objectives started earlier in the first chapter in the research. In this chapter, collected data have been analyzed & presented mathematically

The main objective of this study is to analyze about contribution of income tax from Siddhartha Bank Ltd. Likewise, other objectives are to evaluate effectiveness of income tax, study on tax planning executed by SBL & to assign possible suggestions & recommendations on the basis of the study for obtaining these above objective, different statistical tools are being used to analyze historical data. More over opinion surveys are being exercised to make the study realistic, realistic & being useful.

4.1.2 Structure of Nepalese Government Revenue.

The government of any country needs adequate budget for the development activities, operation of administration, maintaining peace & security & for other public welfare activities. The required budget is allocated from the various sources. Generally, the revenue collected by the government from various source is known as public or national revenue. Regarding the context of Nepal, national revenue can be collected from different sources. It is simply classified as tax revenue & non tax revenue. Tax revenue includes direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, interest tax, contract tax, vehicle tax, expenditure tax, land revenue & others taxes. An indirect tax comprised the customs, excise, sales tax, entertainment tax, vat & others. On the other hand non tax revenue is the composition

of various kinds of receipts from foreign governments & international entities. The government revenue is therefore the combination of tax revenue & non tax revenue consisting of various sources. Major sources of income tax of the government are custom duty, excise duty & sales tax or vat under indirect tax group. Custom duties consist of export duty, import duty as well as excise, refund fund from government of India & other miscellaneous income. So, the excise duty is the imposition of tax on the country's production which consists of liquor, tobacco, & other industrial products. The other indirect taxes which contribute a significant share in government revenues are contract tax, hotel tax, entertainment tax & air flight tax. Land revenue is the type of direct tax which includes development & land tax. The income tax directly imposed upon the individuals & organizations' income profit, income tax, is the composition of direct tax revenue that is levied upon net income or profit earned by the public enterprises, semi public enterprises, private corporate bodies, self employed, individuals & employed persons. The house & land registration is also the part of direct tax. Non tax revenue of the government includes various registration fees, income received from sale of government services & products, dividend received, royalties, principal & interest received & miscellaneous incomes. The registration fees include firm registration, vehicle registration & license registration etc. Water charges, telephone charges, post service charges, revenue received from education institution, income from agricultural product, Income from supply of product & incomes generate from transportation services are the major source of revenue. Government services divided from financial institution, trading company, industrial enterprises & service oriented organizations by the government under special public enterprises act, similarly royalty from mine is also the non tax revenue of the government.

4.1.3 Contribute of Tax Revenue to Total Revenue.

National revenue is the composition of tax revenue & non tax revenue. Tax revenue has direct & indirect. Customs, excise duty, sales tax, vat & other miscellaneous incomes are the main revenue items of indirect tax revenue. Direct tax however is the composition of income tax, land tax, property tax, interest tax & other direct taxes. Non tax revenue of the government is also important revenue source that includes different type fees, charges, dividend, royalty & sales of fixed assets are also component of non tax revenue. The following table shows the comparison between tax revenue & non tax revenue collection.

Table 4.1
Comparison between Tax Revenue & Non Tax Revenue

(Rs. in millions)

| Fiscal year | Total revenue | Tax revenue | Non tax revenue | % of tax revenue | % of non tax revenue |
|-------------|---------------|-------------|-----------------|------------------|----------------------|
| 2006/007 | 62330.55 | 48172.50 | 14158.05 | 77.29 | 22.71 |
| 2007/008 | 70122.70 | 54104.70 | 16018.00 | 77.16 | 22.84 |
| 2008/009 | 82456.30 | 71047.20 | 11409.10 | 86.16 | 13.84 |
| 2009/010 | 93459.75 | 83355.40 | 10104.35 | 89.19 | 10.81 |
| 2010/011 | 179945.82 | 156294.92 | 23650.90 | 86.86 | 13.14 |
| Average | | | | 83.33 | 16.67 |
| S.D | | | | 5.09 | 5.09 |
| C.V. | | | | 6.10 | 30.52 |

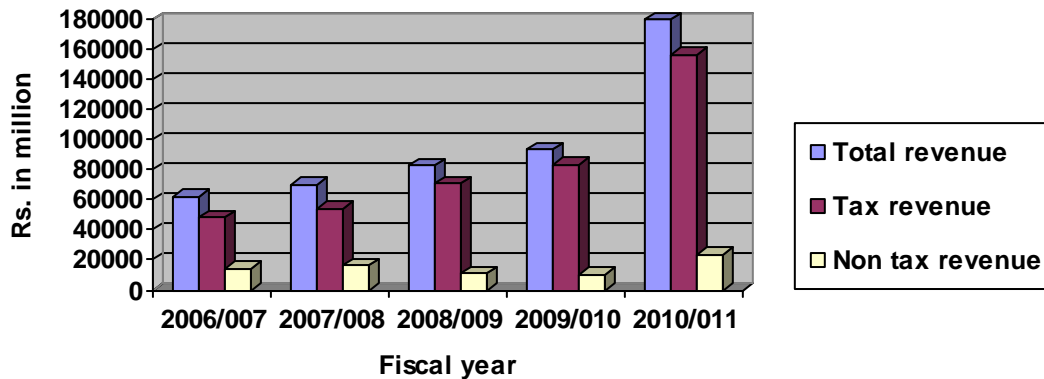
(Source: Ministry of finance, Annual rep 2010/11)

The above table has shown the combination of tax revenue & non tax revenue in different years. The percentage of tax revenue are, 77.29, 77.16, 86.16, 89.19 & 86.86, in the year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. In the same way the non tax percentage of non tax revenues are 22.71,

22.84, 13.84, 10.81 & 13.14 respectively. The average percentage of tax revenue in five years is 83.33 having 5.09 standard deviation & 6.10% coefficient of variation. It shows that there is no greater variability of percentage of tax revenue in different years. Similarly the average percentage of non tax revenue in five years is 16.76 having 5.09 standard deviation & 30.52 % of coefficient of variation. It shows that the variability of percentage of non tax revenue is greater than that of tax revenue in different years.

Figure 4.1

Contribution of Tax Revenue to Total revenue



The above figure relates to contribute of tax & non tax revenue to the total revenue. It shows that the total revenue is being increased as compared to previous years. The total revenue has been increased from 62330.55 million to 179945.82 million from the year 2006/2007 to last year 2010/2011. Like wise, the tax revenue has been increased from 48172.50million to 156294.92 million from the first to last years.

4.1.4 Contribution of Direct Tax to Total Tax Revenue & Total Revenue

Generally, tax revenue is divided into two classes, direct & indirect tax a direct tax is such type of tax which is imposed on a person out of his income or property. A direct tax is really paid by a person on whom it is legally imposed. That is he must pay himself. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax

vehicle tax & other taxes are the example of direct tax. Likewise, an indirect tax is such type of tax which is imposed to any person direct collect from him. An indirect tax is imposed on one person but paid partly or wholly by another. Sales tax entertainment tax, custom, excise duty etc are examples of this tax.

Table 4.2

Contribution of Direct Tax to Total Tax revenue & Total Revenue

(Rs. in millions)

| Fiscal year | Total revenue | Tax revenue | Direct tax revenue | % of direct tax on total revenue | % of direct tax on total tax revenue |
|--------------|---------------|-------------|--------------------|----------------------------------|--------------------------------------|
| 2006/00 7 | 62330.55 | 48172.50 | 11912.10 | 19.11 | 24.73 |
| 2007/00 8 | 70122.70 | 54104.70 | 13580.70 | 19.37 | 25.10 |
| 2008/00 9 | 82456.30 | 71047.20 | 13332.49 | 16.17 | 18.77 |
| 2009/01 0 | 93459.75 | 83355.40 | 14415.30 | 15.42 | 17.29 |
| 2010/01 1 | 179945.82 | 156294.92 | 41750.18 | 23.20 | 26.71 |
| Average | | | | 18.65 | 22.52 |
| S.D | | | | 2.76 | 3.76 |
| C.V. | | | | 14.78 | 16.68 |

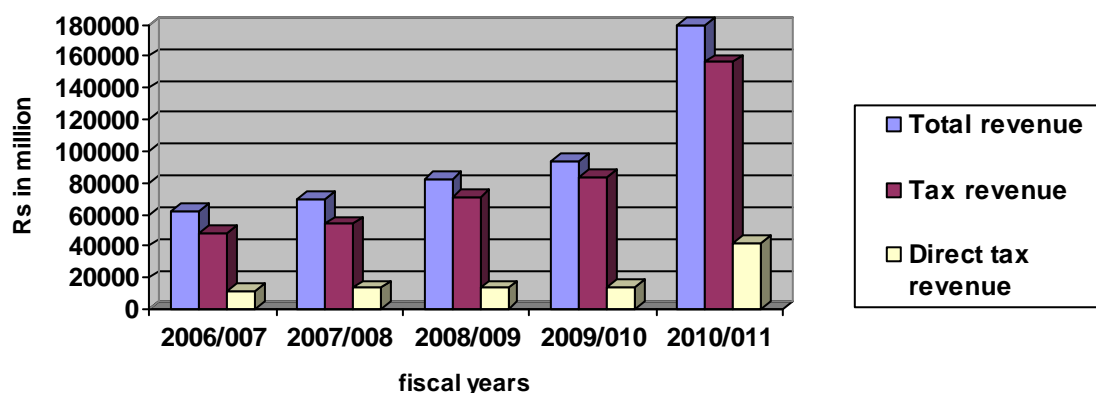
(Source: Ministry of finance, Annual rep 2010/11)

Contribution of direct tax to total tax revenue & total revenue has been presented in above table. According to this table the percentage of direct tax on total revenue in

the year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 are 19.11, 19.37, 16.17, 15.42 & 23.20 respectively. In the same way the percentage on direct tax on total tax revenue are 24.73, 25.10, 18.77, 17.29, & 26.72 respectively. The average percentage of direct tax on total revenue is 18.65 with standard deviation 2.76 & coefficient of variation 14.78. It shows that there is greater variability of percentage of direct tax on total revenue in different years. In the same way the percentage of direct tax on total revenue is 22.52 with 3.76 S.D. & 16.68 C.V. It reveals that there is greater variability of percentage of direct tax on total tax revenue which is not favorable.

Figure 4.2

Contribution of Direct Tax to Total Tax Revenue & Total Revenue



The above figure related to contribute of direct tax to total tax revenue & total revenue. It shows that the contribution of direct tax, total tax revenue & total revenue are in increasing way. In the year 2006/007 the direct tax, total tax revenue total revenue are 11912.10, 48172.50, & 62330.55 million & reached to 41750.18, 156294.92 & 179945.82 million in the year 2010/011.

4.1.5 Role of Corporate Tax in Nepal.

Corporate tax is the collected from corporate bodies. It is very important in the context of developing countries due to having less income earner individuals. In

developing countries income tax from corporate bodies' plays vital role for resources mobilization of the nation. Moreover, it is easily identifiable & proper account can be found.

Table 4.3
Role of Corporate Tax in Nepal

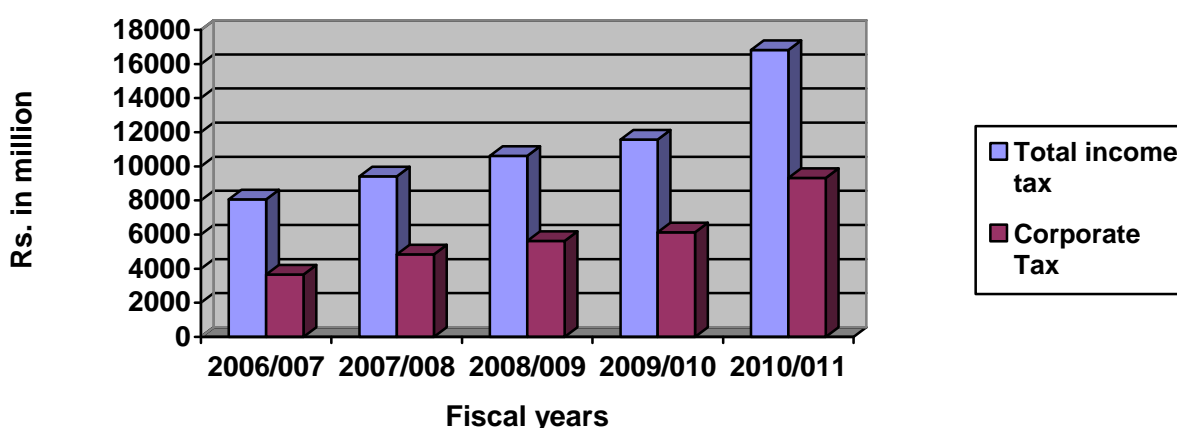
(Rs. in millions)

| Fiscal year | Total income tax | Corporate tax | % of corporate tax on total income tax |
|-------------|------------------|---------------|--|
| 2006/007 | 8059.68 | 3655.55 | 45.36 |
| 2007/008 | 9414.78 | 4838.69 | 51.39 |
| 2008/009 | 10619.52 | 5623.24 | 52.95 |
| 2009/010 | 11569.72 | 6125.35 | 52.94 |
| 2010/011 | 16821.34 | 9319.47 | 55.40 |
| Average | | | 51.61 |
| S.D | | | 3.38 |
| C.V. | | | 6.54 |

(Source: Ministry of finance, Annual rep 2010/11)

Role of corporate tax in Nepal has presented in above table. As per this table, the percentage of corporate tax on total income tax are 45.36, 51.39, 52.95, 52.94, & 55.40 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of corporate tax on total income tax is 51.61 where as standard deviation 3.38 & coefficient of variation 6.54. The C.V. is relatively lower. This includes that the percentage of corporate tax on total income tax is not fluctuated more which is acceptable over the study period.

Figure 4.3
Role of Corporate Tax in Nepal



The above figure shows the contribute of corporate tax out of total income tax in five years started from the year 2006/007 it increasing as compared to the previous year. In the year 2006/007, the corporate tax was 3655.55 million out of 8059.68 million total income tax revenue. It has increase & reached upto 9319.47 million out of 16821.34 million total tax revenue in the year 2010/011.

4.1.6 Corporate Tax on Total Revenue.

Corporate bodies create significance role to build up government revenue. Corporate tax, the part of income structure is also very important resource of revenue of resource of revenue in developing countries like Nepal. Corporate bodies cannot escape from tax liability in general. They maintain the books of account in accepted formats, audits their accounts & pay taxes in due date. Unfortunately, in Nepal most

of government enterprises are manipulating accounts. They are standing with bad & poor financial performance. Similarly, family managed private companies are practicing tax evasion. These are the main drawbacks. The following table shows the relationship between corporate tax & government revenue.

Table4.4
Role of Corporate Tax on Total Revenue

(Rs. in millions)

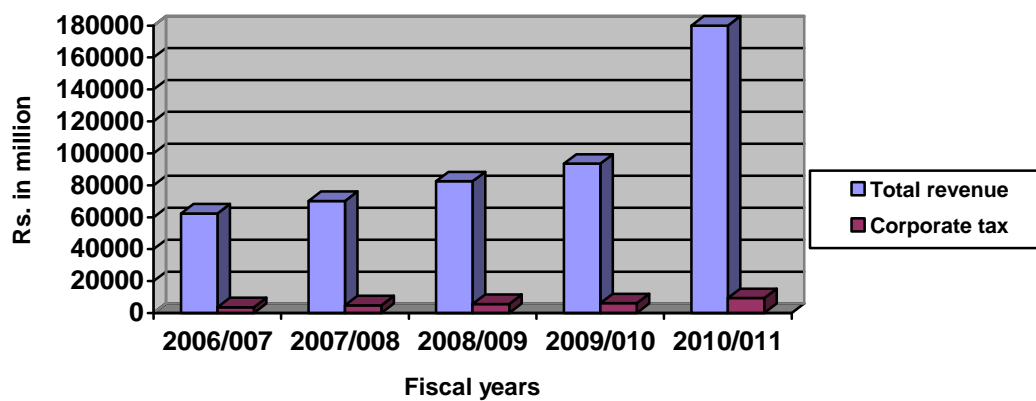
| Fiscal year | Total revenue | Corporate tax | % of corporate tax on government revenue |
|-------------|---------------|---------------|--|
| 2006/007 | 62330.55 | 3655.55 | 5.86 |
| 2007/008 | 70122.70 | 4838.69 | 6.90 |
| 2008/009 | 82456.30 | 5623.42 | 6.82 |
| 2009/010 | 93459.75 | 6125.35 | 6.55 |
| 2010/011 | 179945.82 | 9319.47 | 5.18 |
| Average | | | 6.26 |
| S.D | | | 0.65 |
| C.V. | | | 10.44 |

Source: Ministry of finance, Annual rep 2010/11)

The above figure is related with the role of corporate tax on government revenue. In the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 percentage of corporate tax on government revenue are 5.86, 6.90, 6.82, 5.66, & 5.18 respectively. Like wise the average percentage of corporate tax on government revenue is 6.25 the standard deviation 0.65 & coefficient of variation 10.44. This includes that it is comparatively higher which states the more fluctuation of percentage & is not acceptable.

Figure 4.4

Role of Corporate Tax on Total Revenue



Role

of corporate tax on government revenue has presented in above figure. As per this figurer, the amounted of corporate tax & total revenue are 3655.55 & 62330.55 million in the fiscal year 2006/007, these amount has increased & reached upto 9319.47 million out of 179945.82 million in the year 2010/011.

4.1.7 Income Tax from Commercial Banks to Total Government Revenue & Total Tax Revenue.

The number of commercial banks is being increased nowadays. Obviously, the commercial banks are activating to create government revenue in the form of income tax. They have strictly bounded by high rate of income tax. The corporate tax collected from the commercial banks also increase per years due to the increment in the number of them. They are assisting the government by different ways such as by

contributing revenue, enlarging employment opportunities, empowering economic development etc. The role of commercial banks to total government revenue & total tax revenue has shown in the following table.

Table 4.5
Role of Commercial Banks to Total Government Revenue & Total Tax Revenue.

(Rs. in millions)

| Fiscal year | Total revenue | Tax revenue | Corporate tax collection from C.B. | % on total revenue | % on total tax revenue |
|-------------|---------------|-------------|------------------------------------|--------------------|------------------------|
| 2006/007 | 62330.55 | 48172.50 | 402.95 | 0.65 | 0.84 |
| 2007/008 | 70122.70 | 54104.70 | 493.52 | 0.70 | 0.91 |
| 2008/009 | 82456.30 | 71047.20 | 607.60 | 0.74 | 0.86 |
| 2009/010 | 93459.75 | 83355.40 | 703.60 | 0.75 | 0.84 |
| 2010/011 | 179945.82 | 156294.92 | 1380.98 | 0.77 | 0.88 |
| Average | | | | 0.72 | 0.87 |
| S.D | | | | 0.04 | 0.03 |
| C.V. | | | | 5.92 | 3.05 |

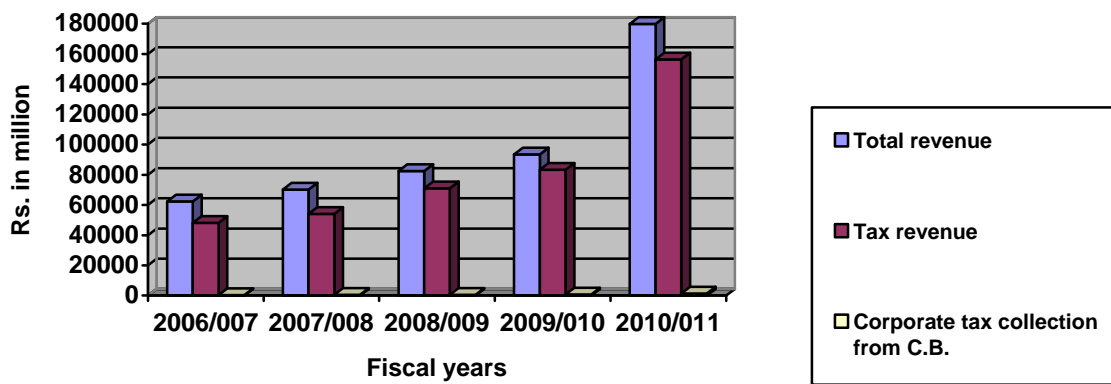
(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

As per above table it is clear that the percentage of tax collection from commercial banks on total revenue are 0.65, 0.70, 0.74, 0.75, & 0.77 in the fiscal year started from 2006/007 to 2010/011. In the similarly way, the percentage of tax collection from commercial banks on total tax revenue are 0.84, 0.91, 0.86, 0.84, & 0.88 the average percentage of income tax collection from commercial banks on total revenue 0.72 with S.D. 0.04 & C.V. 5.92. Regarding the interpretation of C.V. it is

comparatively lower. It indicates that the percentage over the years have not fluctuated more which is describable. On the other hand the average percentage of tax collection from C.B. on total revenue is 0.87 having standard deviation 0.03 & 3.05 coefficient of variation. By observing the C.V. it is comparatively lower. It expresses hat the percentage of tax collection from C.B have more consistent & acceptable.

Figure 4.5

Role of Commercial Banks to Total Government Revenue & Total Tax Revenue.



The above figure shows the amount of corporate tax collected from C.B. together with total revenue & total tax revenue. The corporate tax collection from C.B total tax revenue & total revenue are 402.95, 48172.50 & 62330.55 million in the fiscal year 2006/007 & have reached to 1380.98, 156294.92, & 179945.82 million in the fiscal year 2010/011.

4.1.8 Income Tax from SBL to Total Government Revenue.

Siddhartha banks Ltd. has contributing income tax to the government regularly. It has been playing significant role to the corporate tax collection from commercial banks. The following table clarifies the income tax paid by SBL in different years.

Table 4.6
Income Tax from SBL to Total Government Revenue.

(Rs. in millions)

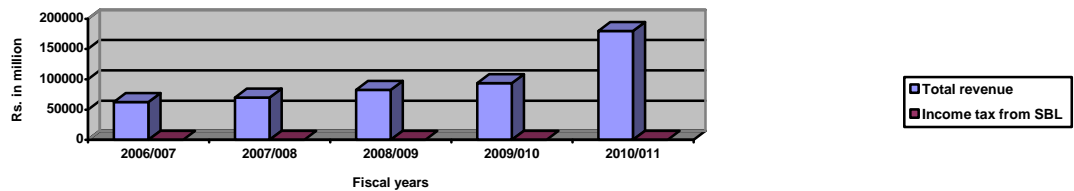
| Fiscal year | Total revenue | Income tax from SBL | % of income tax from SBL to total govt. revenue |
|-------------|---------------|---------------------|---|
| 2006/007 | 62330.55 | 40.03 | 0.06 |
| 2007/008 | 70122.70 | 65.77 | 0.09 |
| 2008/009 | 82456.30 | 98.66 | 0.12 |
| 2009/010 | 93459.75 | 103.69 | 0.11 |
| 2010/011 | 179945.82 | 129.96 | 0.07 |
| Average | | | 0.09 |
| S.D | | | 0.03 |
| C.V. | | | 25.34 |

(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

According above table, the contribution of income tax from SBL are 40.03, 65.77, 98.65, 103.69 & 129.96 million in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The income tax from SBL to total government revenues are 0.06, 0.09, 0.12, 0.11, 0.07 & 0.09 respectively. The average percentage of income tax is 0.07. Standard deviation 0.03 & coefficient of variation 25.34, by analyzing the C.V. it is comparatively higher which reflects that the percentage of income tax from SBL is not uniform in nature & is not acceptable too.

Figure 4.6

Income Tax from SBL to Total Government Revenue.



The above figure the trends study in regard to percentage of income tax from SBL to total govt. revenue in different years. It is following increasing trend from the fiscal year 2006/007 & is decrease in the year 2010/011

4.1.9 Share Income Tax from SBL to Total Tax Revenue.

As a commercial bank, SBL has been contributing the government by the means of income tax. The total tax revenue is being influenced by the contribution of income tax from the following table shows the share of income tax from SBL to total tax revenue in different years.

Table 4.7

Share Income Tax from SBL to Total Tax Revenue. (Rs. in millions)

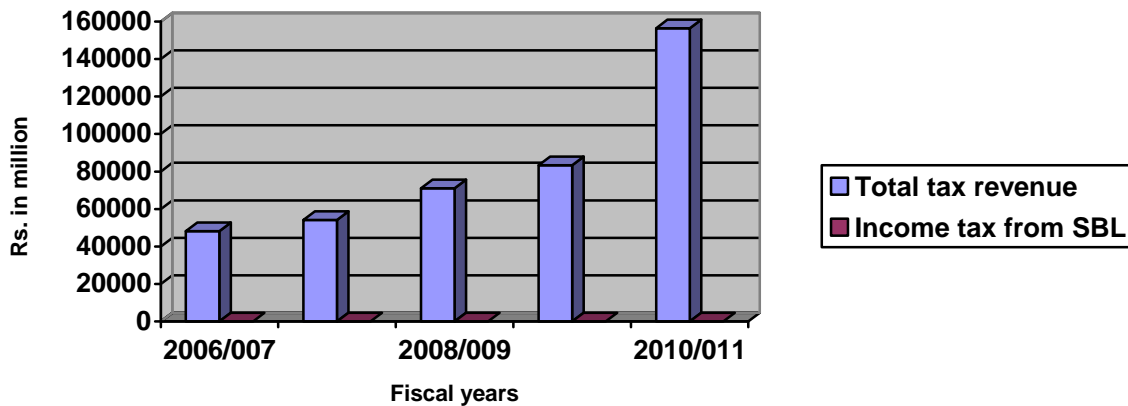
| Fiscal year | Total tax revenue | Income tax from SBL | % of income tax from SBL to total tax revenue |
|-------------|-------------------|---------------------|---|
| 2006/007 | 48172.50 | 40.03 | 0.08 |
| 2007/008 | 54104.70 | 65.77 | 0.12 |
| 2008/009 | 71047.20 | 98.66 | 0.14 |
| 2009/010 | 83355.40 | 103.69 | 0.13 |
| 2010/011 | 156294.92 | 129.96 | 0.08 |
| Average | | | 0.11 |
| S.D | | | 0.03 |
| C.V. | | | 22.99 |

(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

As per above table, the percentage of income tax from SBL to total tax revenue can be elaborated. It shows that the percentage of income tax from SBL are 0.08, 0.12, 0.14, 0.13, & 0.08 fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. In the study period, the average percentage of income tax from SBL to total tax is 0.11. Standard deviation 0.03 & coefficient of variation 22.99, by analyzing the C.V. it is comparatively higher. It is not favorable due to greater variability of the percentage of income of income tax in the study period.

Figure 4.7

Share Income Tax from SBL to Total Tax Revenue.



The above figure the trends study relating to percentage of income tax from SBL to total tax revenue. It has been following increasing trend in all fiscal rather than that of the year 2010/011.

4.1.10 Share of Income Tax from SBL to Direct Tax Revenue.

SBL has contributed tax as direct tax revenue since it is the tax imposed on income. The portion of income tax paid by SBL out of direct tax revenue is presented as follow

Table 4.8**Share of Income Tax from SBL to Direct Tax Revenue.**

(Rs. in millions)

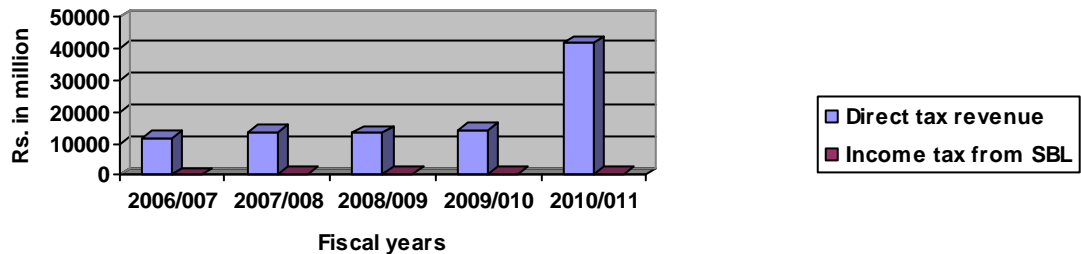
| Fiscal year | Direct tax revenue | Income tax from SBL | % of income tax from SBL to direct tax revenue |
|-------------|--------------------|---------------------|--|
| 2006/007 | 11912.10 | 40.03 | 0.34 |
| 2007/008 | 13580.70 | 65.77 | 0.48 |
| 2008/009 | 13332.49 | 98.66 | 0.74 |
| 2009/010 | 14415.30 | 103.69 | 0.72 |
| 2010/011 | 41750.18 | 129.96 | 0.31 |
| Average | | | 0.52 |
| S.D | | | 0.18 |
| C.V. | | | 35.09 |

(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

The above table, percentage of income tax to direct tax revenue in different years. The percentages are 0.34, 0.48, 0.74, 0.72, & 0.31 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax from SBL to direct tax revenue is 0.52, again standard deviation & coefficient of variation 0.18, & 35.09. The C.V. it is comparatively higher which states that is more fluctuation of percentage of income tax in the study period & is not desirable.

Figure4.8

Share of Income Tax from SBL to Direct Tax Revenue.



The trends analysis of share of income tax from SBL to direct tax revenue has presented in above figure. As per this figure, there is increasing trend except the fiscal year 2010/011

4.1.11 Share of Income Tax from SBL to Income Tax Revenue.

The income tax revenue is a part of direct tax revenue. The share of income tax from SBL to income tax revenue is presented as follows.

Table 4.9

Share of Income Tax from SBL to Income Tax Revenue.

(Rs. in millions)

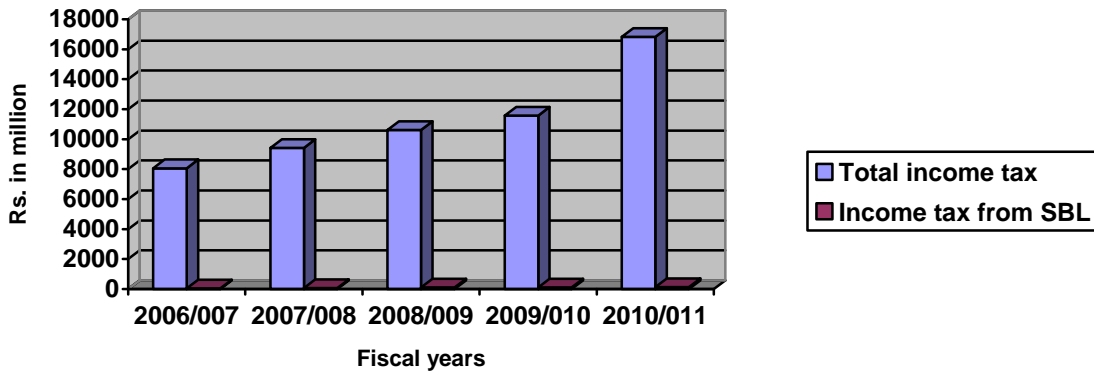
| Fiscal year | Total income tax | Income tax from SBL | % of income tax from SBL to total tax revenue |
|-------------|------------------|---------------------|---|
| 2006/007 | 8059.68 | 40.03 | 0.49 |
| 2007/008 | 9414.78 | 65.77 | 0.69 |
| 2008/009 | 10619.52 | 98.66 | 0.93 |
| 2009/010 | 11569.72 | 103.69 | 0.89 |
| 2010/011 | 16821.34 | 129.96 | 0.77 |
| Average | | | 0.75 |
| S.D | | | 0.16 |
| C.V. | | | 20.96 |

(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

As per above presented figure, the percentages of income tax from SBL to total tax revenue are 0.49, 0.69, 0.93, 0.89, & 0.77 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax in total tax revenue is 0.75 likewise, standard deviation 0.16 & coefficient of variation 20.96. The C.V. it is relatively higher which indicates that the ratio has fluctuated more & is not desirable.

Figure 4.9

Share of Income Tax from SBL to Income Tax Revenue



The above presented figure shows the trends study of percentage of income tax from SBL to total tax revenue. It is following increasing trend in all fiscal years then that year 2010/011

4.1.12 Share of Income Tax from SBL to Corporate Income Tax.

Corporate income tax collected from corporate bodies. As a corporate body SBL has contributed the income tax which has presented in the following table.

Table 4.10**Share of Income Tax from SBL to Corporate Income Tax.**

(Rs. in millions)

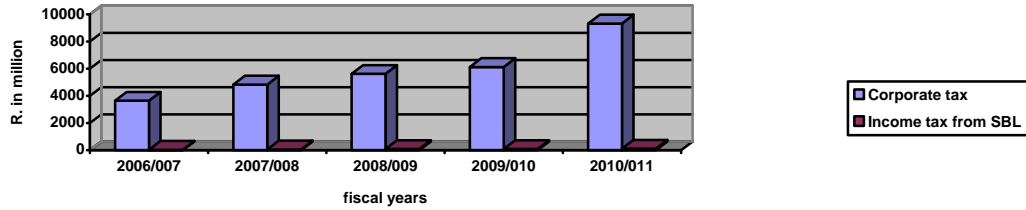
| Fiscal year | Corporate tax | Income tax from SBL | % of income tax from SBL to corporate tax |
|-------------|---------------|---------------------|---|
| 2006/007 | 3655.55 | 40.03 | 1.09 |
| 2007/008 | 4838.69 | 65.77 | 1.35 |
| 2008/009 | 5623.42 | 98.66 | 1.75 |
| 2009/010 | 6125.35 | 103.69 | 1.69 |
| 2010/011 | 9319.47 | 129.96 | 1.39 |
| | Average | | 1.45 |
| | S.D | | 0.24 |
| | C.V. | | 16.63 |

(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

The above table is related to the percentage of income tax from SBL, to corporate tax income. In the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 percentage of income tax from SBL to corporate tax are 1.09, 1.35, 1.75, 1.69 & 1.39 respectively. Like wise the average percentage of corporate tax is 1.45 the standard deviation 0.24 & coefficient of variation 16.63. Regarding the C.V. it is relatively higher which reflects that there is more fluctuation of percentage of income tax in the study period & is not favorable.

Figure 4.10

Share of Income Tax from SBL to Corporate Income Tax.



Share of the income tax from SBL to corporate tax has presented in above figure. The train shows that there is increasing trend in all the year except the fiscal year 2010/011.

4.1.13 Share of Income Tax from SBL to Corporate Tax Collection from C.B

Commercial bank are the component of corporate boded. As a commercial bank, the portion of income tax paid by SBL to tax collection from C.B. is presented as follows.

Table 4.11

Share of Income Tax from SBL to Corporate Tax Collection from C.B

(Rs. in millions)

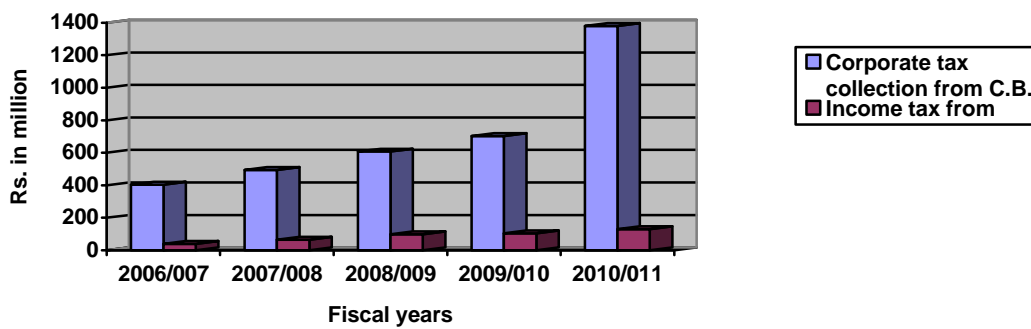
| Fiscal year | Corporate tax collection from C.B. | Income tax from SBL | % of Income tax from SBL to tax collect from C.B. |
|-------------|------------------------------------|---------------------|---|
| 2006/007 | 402.95 | 40.03 | 9.93 |
| 2007/008 | 493.52 | 65.77 | 13.33 |
| 2008/009 | 607.60 | 98.66 | 16.25 |
| 2009/010 | 703.60 | 103.69 | 14.73 |
| 2010/011 | 1380.98 | 129.96 | 9.41 |
| Average | | | 12.73 |
| S.D | | | 2.67 |
| C.V. | | | 20.97 |

(Source: Ministry of finance & Commercial bank Annual rep 2010/11)

As per above table, the percentage of income tax SBL to tax collection from commercial banks are 9.93, 13.33, 16.25, 14.73 & 9.41 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income collection is 9.09, where as the S.D 2.67 & C.V. 20.97, it is relatively higher which indicates that it has fluctuated more over the study period & is not desirable.

Figure 4.11

Share of Income Tax from SBL to Corporate Tax Collection from C.B



The above figure shows the trend study share of income tax from SBL to corporate tax collection from C.B. It is moving upward in all the year as compared to previous year. But, it is moving downward in the fiscal year 2010/011 as compared to the fiscal year 2009/010.

4.1.14 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the one variable are accompanied by systematic changes in the other. In order words correlation is the statistical tool that we can use to describe the degree to which on variable is linearly related to another. The coefficient of correlation measure the degree of relation ship between two sets of figures. It is denoted by small letter 'r'. The result of coefficient of correlation is always between +1 & -1 when 'r' is equal to +1, it means there is prefect relationship between two variables & vice versa. When 'r' is zero, it means there is no relationship between two

variables. Therefore, correlation is a reciprocal relation between two or more things. The following correlation coefficients are presented here.

- Income tax paid & earning before interest & tax.
- Income tax liabilities & total liabilities.

4.1.15 Coefficient of Correlation between Income Tax paid & Earning Before Interest & Tax of SBL.

To find out the relationship between EBIT & income tax paid by SBL, income tax is taken as dependent variable & EBIT is taken as independent variable. The following table shows the coefficient of correlation between income tax & EBIT of SBL i.e. 'r', 'PER', '6PER' of Siddhartha Bank Ltd.

Table 4.12

Coefficient of Correlation between Income Tax paid & EBIT of SBL

| Name of the bank | Correlation (r) | PER | 6PER |
|------------------|-----------------|-------|-------|
| SBL | +0.99 | 0.006 | 0.036 |

From the above table, we can find that the coefficient of correlation between income tax & paid & EBIT of SBL is +0.99. It shows that the relationship between these two variables. By considering the probable error, since 'r' is more than six times of PER then we can say that the value of 'r' is highly significant & vice versa. In case of SBL, the value of 'r' is greater than that of 6PER. So there is significant relationship between income tax paid & EBIT of SBL.

4.1.16 Coefficient of Correlation between Income Tax Liabilities & Total Liabilities of SBL.

To find the relationship between income tax liabilities & total liabilities of SBL, income tax liabilities is supposed as dependent variable & total liabilities is supposed

as independent variables. The following table shows the coefficient of correlation between income tax liabilities & total liabilities of SBL.

Table 4.13

Coefficient of Correlation between Income Tax Liabilities & Total Liabilities of SBL.

| Name of the bank | Correlation (r) | PEr | 6PEr |
|------------------|-----------------|--------|-------|
| SBL | +0.4612 | 0.2375 | 1.425 |

As the above table, the coefficient of correlation between income tax liabilities & total liabilities of SBL is +0.4612. It shows that there is positive relationship between these two variables. Similarly the value of 6PEr is 1.425. Since r is less than that of 6PEr it shows the value of r is not significant. Thus from the above analysis, it can be concluded that there is no significant relationship between income tax liabilities & total tax liabilities of SBL.

4.2 Analysis of Empirical Study

The survey result has been conducted to find out the various aspects of income tax. The structured questionnaire was prepared & distributed for this purpose. The opinion of the various 75 respondents associated with distinct sectors such as income tax administrator, tax expert & the persons engaged in banking & financial institutions. The questionnaire was mainly concerned with the income tax aspect. Like wise, major drawback relating to income tax, problem facing by tax payer, influence of income tax on banking scenario, the most factors for the effectiveness of income tax especially in the context of Nepal etc. The respondents were asked either to response yes or no of alternatives where first choice was the most important & last choice was least important. Number of respondents in each denomination is equal 25 persons. Information received from the respondents are tabulated & analyzed in the proper way. The following table shows the group & number of respondents.

Table 4.14

| S.N. | Group of respondents | Number |
|------|----------------------|--------|
| 1 | Tax administrators | 25 |
| 2 | Tax experts | 25 |
| 3 | Bankers | 25 |
| | Total | 75 |

4.2.1 Opinion towards Effective Contribution of Direct Tax

Direct tax is a tax on income & property. It is paid by person on whom it is legally imposed. It includes tax on property, tax on income, tax on interest & so on. Direct tax is paying significance role for the formulation of government revenue. It identify the contribution of direct tax to national revenue is effective or not, a question was asked, "Do you think that contribution of direct tax to national revenue is effective" the response is tabulated numerical in the following table.

Table 4.15

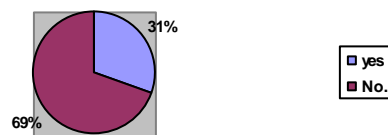
Opinion towards Effective Contribution of Direct Tax

| Response | yes | | No | | Total | |
|--------------------|-----|-------|----|-------|-------|-----|
| | No. | % | No | % | No. | % |
| Tax administrators | 7 | 28 | 18 | 72 | 25 | 100 |
| Tax experts | 10 | 40 | 15 | 60 | 25 | 100 |
| Bankers | 6 | 24 | 19 | 76 | 25 | 100 |
| Total | 23 | 30.67 | 52 | 69.33 | 75 | 100 |

In the above table, it is observation that only 28 % of tax administrators, 40% of tax experts & 24% of bankers are agreed to the fact that the contribution of tax is

effective in the same way 72% of tax administrators, 60% of tax experts & 76% of bankers are not satisfied to this fact. In totality, 30.67% of the respondents are in favor of the effective ness of contribution of direct tax & the 69.33 % of the respondents are opposed that effectiveness. The aggregate percentage of the respondents in regard to this aspect is presented below. It shows that more respondents are disagreed about the effective ness of direct tax.

Figure 4.15
Opinion towards Contribution of Direct Tax



4.2.2 Opinion towards Reason for Low Contribution of Income Tax.

Obviously, the contribution of income tax is not so satisfactory in the context of Nepal. That is, the actual collection of income tax is less than that of expected one. There are different causes behind that really. Especially, tax evasion, tax avoidance, not availability of powerful punishment system etc. are the main causes. To identify the reason for low contribution of income tax, a question was asked, what are the major reasons for low contribution of income tax to national revenue? The five options are given to response that question. The options were to be ranked from 1 to 5, the most important option 1 & so on. The response is tabulated in the following table

Table4.16

Opinion towards Reason for Low Contribution of Income Tax

| S. N | Method | Total point received | | | | | Rank |
|------|--|----------------------|-------------|----------|-------|-------|------|
| | | Tax adm. | Tax experts | Bank ers | Total | % | |
| 1 | Defective of income tax | 100 | 75 | 85 | 260 | 13.87 | 4 |
| 2 | Mass poverty & low income level | 75 | 100 | 115 | 290 | 15.47 | 3 |
| 3 | Increasing habit of income tax evasion | 250 | 225 | 200 | 675 | 36.0 | 1 |
| 4 | Inefficient income tax adm. | 125 | 150 | 125 | 400 | 21.33 | 2 |
| 5 | In appropriate income tax | 75 | 75 | 100 | 250 | 13.33 | 5 |

In the above table, it is concerned with the reason for low contribution of income tax. In really there may be different reasons behind that aspect. But, only five options are given to that fact. The respondents are required to rank from 1 to 5 as per their preference. The most preferred option is stood as rank 1 & so on The points granted to rank 1,2,3,4 & 5 are 25, 20, 15, 10 & 5 respectively. Out of given five alternative, 36% of other response is about the option increasing habit of tax evasion, likewise 21.33%, 15.47%, 13.87% & 13.33 % of response are about the option inefficient income tax administration, defective of income tax. Mass poverty & low income level & inappropriate rate & exemption limit respectively. So, the ranking according as the preference of the respondents is as follows.

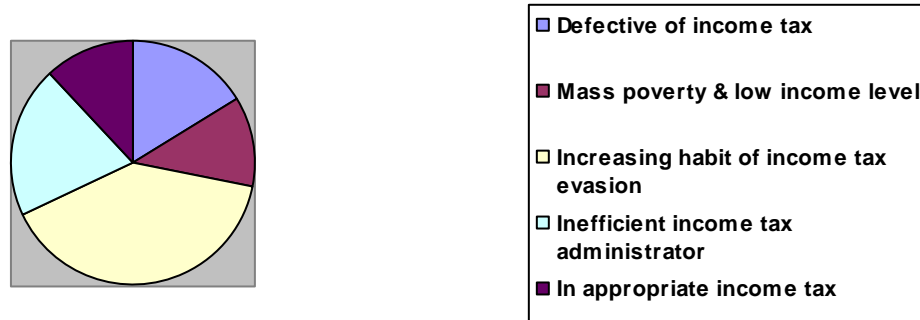
- Increasing habit of tax evasion.
- Inefficient income tax administration.
- Mass poverty & low income level.
- Defective of income tax.

- Inappropriate rate & exemption limit.

The above table classifies about the ranking to the different given options by the respect respondents.

Figure 4.16

Opinion towards Reason for Low Contribution of Income Tax



4.5.3 Opinion towards Satisfactory Contribution of Income Tax Revenue.

Income Tax is supposed as a powerful means for the revenue collection. Nevertheless, in the context of Nepal, It is not so satisfactory. That is, the actual collection of income tax is low. To know this fact, a question was asked to respondents ' In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?' The opinions result is presented in the following.

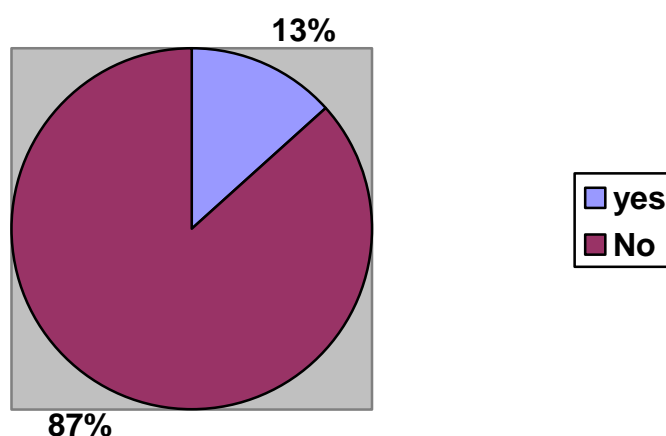
Table 4.17

Opinion towards Satisfactory Contribution of Income Tax Revenue.

| Response | yes | | No | | Total | |
|--------------------|-----|-------|----|-------|-------|-----|
| | No. | % | No | % | No. | % |
| Tax administrators | 5 | 20 | 20 | 80 | 25 | 100 |
| Tax experts | 3 | 12 | 22 | 88 | 25 | 100 |
| Bankers | 2 | 8 | 23 | 92 | 25 | 100 |
| Total | 10 | 13.33 | 65 | 86.67 | 75 | 100 |

In the above table, it is observed that only 20 % of tax administrators, 12% of tax experts & 8% of bankers are agreed to the fact that the contribution of income tax revenue of Nepal satisfactory. But, 80% of tax administrators, 88% of tax experts & 92% of bankers are not satisfied to this aspect. In totality, 13.33% of the respondents are satisfied & the rest 86.67%of the respondents are dissatisfied to this fact. The following figure shows about the opinion of the respondents towards contribution of income tax revenue.

Figure 4.17
Opinion towards Satisfactory Contribution of Income Tax Revenue



4.2.4 Opinion towards Suitable Tax Rate System in Nepal.

In order to find out the suitable income tax rate system in Nepal, respondents were requested to select any one among the three alternatives. The question was 'In your opinion, which income tax is suitable for Nepal' The response is tabulated in the following table.

Table 4.18

Opinion towards Suitable Tax Rate System in Nepal.

| Methods | Tax administrators | Tax experts | Bankers | Total | % |
|--------------|--------------------|-------------|---------|-------|-----|
| Progressive | 21 | 25 | 20 | 66 | 88 |
| Proportional | 4 | 0 | 5 | 9 | 12 |
| Regressive | 0 | 0 | 0 | 0 | 0 |
| Total | 25 | 25 | 25 | 75 | 100 |

In the above table relates to the opinion towards suitable tax tare in Nepal. Especially, there are three methods of tax rate particularly progressive, proportional & regressive. As per above table it is observed that 21 tax administrators, 25 tax experts & 20 bankers are in favor of progressive method of tax rate. Similarly, 4 tax administrator, o tax experts & 5 bankers are favor of proportional tax rate system. Moreover, none of the respondents are favor of regressive tax rate method. Aggregately, 88% of tax respondents & 12% of respondents are in favor of progressive & proportional tax rate system & on respondents are in favor of regressive tax rate method. The following figure reflects about the opinion towards suitable tax rate system in Nepal.

Figure 4.18

Opinion towards Suitable Tax Rate System in Nepal.



4.2.5 Opinion towards Income Tax as Suitable Means Rising of Government Revenue

To identify the view regarding income tax as suitable means of rising government revenue a question was asked. The question was "Do you consider that the income tax as a suitable means of rising govt. revenue" The opinions expressed by the respondents are as follows.

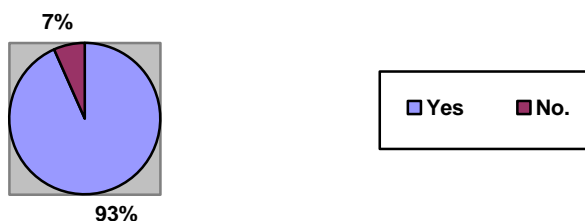
Table 4.19

Opinion towards Income Tax as Suitable Means Rising of Government Revenue.

| Response | yes | | No | | Total | |
|--------------------|-----|-------|----|------|-------|-----|
| | No. | % | No | % | No. | % |
| Tax administrators | 25 | 100 | 0 | 0 | 25 | 100 |
| Tax experts | 24 | 96 | 1 | 4 | 25 | 100 |
| Bankers | 21 | 84 | 4 | 16 | 25 | 100 |
| Total | 70 | 93.33 | 5 | 6.67 | 75 | 100 |

In the above table concerned with opinion towards income tax as suitable means of rising government revenue. As per this table it is observed that 100% of tax administrators, 96% of tax experts & 84% of bankers are satisfied towards income tax as suitable means rising govt. revenue. Likewise 4% of tax experts & 16% of bankers are not satisfied to this aspect. In totality, 93.33% of respondents are in opposing to this fact. The following figure shows the opinion towards income tax as suitable means of raising government revenue.

Figure 4.19
Opinions towards Income Tax as Suitable Means Rising of Government Revenue.



4.2.6 Opinion towards Role of Banking Sector to Build up Government Revenue.

Nowadays, the number of bank & financial institutions are increasing. They are contributing their income tax for the formulation of government revenue. To identify the effectiveness of income tax contributed by banking sector a question was asked among the respondents. That is "In your view, is the income tax contributed by banking sector effective to build up government revenue?" The response given by the respondents is tabulated in the following table.

Table 4.20

Opinion towards Role of Banking Sector to Build up Government Revenue.

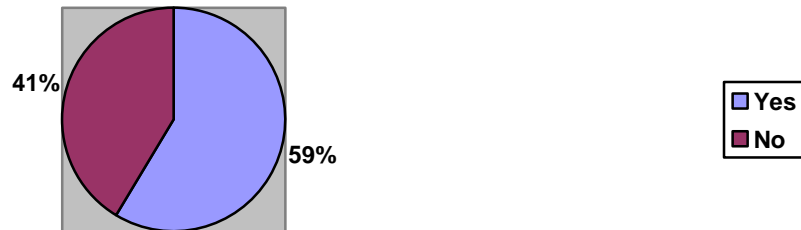
| Response | yes | | No | | Total | |
|--------------------|-----|-------|----|-------|-------|-----|
| | No. | % | No | % | No. | % |
| Tax administrators | 13 | 52 | 12 | 48 | 25 | 100 |
| Tax experts | 16 | 64 | 9 | 36 | 25 | 100 |
| Bankers | 15 | 60 | 10 | 40 | 25 | 100 |
| Total | 44 | 58.67 | 31 | 41.33 | 75 | 100 |

Opinion towards role of banking sector to built up govt. revenue in above table. As per this table it can be observed hat 52% of tax administrators, 64% of tax experts & 15% of the bankers are in favor of the effectiveness of banking sector to build up

govt. revenue. Likewise, 48% of tax administrator, 36% of tax experts & 40% of bankers are not satisfied about to this the effective ness of banker sector to built of govt. revenue in overall, 58.67% of tax respondents are in favor of this aspect & rest 41.33 % of the respondents are in opposing to this aspect. The following figure shows about the opinion towards rile of banking sector to build up govt. revenue.

Figure 4.20

Opinion towards Role of Banking Sector to Build up Government Revenue



4.2.7 Opinion towards Evaluation of Facilities & Incentives Granted to Banking Sectors.

ITA 2058 has provided different facilities & incentives to different sectors. Particularly, the banking sector is also benefited by these facilities & incentives. To identify the facilities & incentives favorable or not a question "In your opinion, is facilities & incentives granted to banking sectors effective under ITA 2058" was asked. The answers given by the respondents are tabulated in the following table.

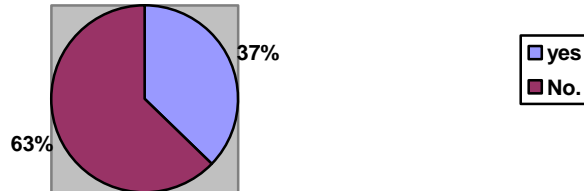
Table 4.21

Opinion towards Evaluation of Facilities & Incentives Granted to Banking Sectors

| Response | yes | | No | | Total | |
|--------------------|-----|-------|----|-------|-------|-----|
| | No. | % | No | % | No. | % |
| Tax administrators | 10 | 40 | 15 | 60 | 25 | 100 |
| Tax experts | 11 | 44 | 14 | 56 | 25 | 100 |
| Bankers | 7 | 28 | 18 | 72 | 25 | 100 |
| Total | 28 | 37.33 | 47 | 62.67 | 75 | 100 |

The above presented table has shown about the opinion towards evaluation of facilities & incentives provided to banking sector. As per this table it is observed that 40% of tax administrators, 44% of tax experts & 28% of the bankers agreed to the effectiveness of facilities & incentives granted to banking sectors. Likewise, 60% of tax administrator, 72% of tax experts & 56% of bankers are disagreed to the effectiveness of facilities & incentive granted to banker sector. In overall, 37.33% of tax respondents are in favor & rest 62.67 % of the respondents are in against this aspect. The following figure shows about the opinion towards effectiveness of facilities & incentives provided to banking sectors.

Figure 4.21
Opinion towards Evaluation of Facilities & Incentives Granted to Banking Sectors



4.1.17 Major Finding of Study.

The major findings obtained from the study are as follows.

4.1.18 Findings from the Study of Secondary Data

- The percentage of tax revenue are, 77.29, 77.16, 86.16, 89.19 & 86.86, in the year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. In the same way the non tax percentage of non tax revenues are 22.71, 22.84, 13.84, 10.81 & 13.14 respectively. The average percentage of tax revenue in five years is 83.33 %. Similarly the average percentage of non tax revenue in five years is 16.76 % for study period.
- The percentage of direct tax on total revenue are 19.11, 19.37, 16.17, 15.42 & 23.20 in the year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. In the same way the percentage on direct tax on total tax revenue are 24.73, 25.10, 18.77, 17.29, & 26.72 respectively. The average percentage of direct tax on total revenue is 18.65%. In the sane way the percentage of direct tax on total revenue is 22.52 % over the study period.
- The percentages of corporate tax on total income tax are 45.36, 51.39, 52.95, 52.94, & 55.40 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, &

2010/011 respectively. The average percentage of corporate tax on total income tax is 51.61% over the study period.

- The corporate tax on government revenue. In the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 percentage of corporate tax on government revenue are 5.86, 6.90, 6.82, 5.66, & 5.18 respectively. The average percentage of corporate tax on government revenue is 6.25% over the study period.
- The percentage of tax collected from commercial banks on total revenue are 0.65, 0.70, 0.74, 0.75, & 0.77 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively . The average percentage is 0.72%, similarly the percentage of tax collection from commercial banks on total tax revenue are 0.84, 0.91, 0.86, 0.84, & 0.88%, in the respective fiscal year. The average percentage is 0.87 % over the study period.
- The percentages of income tax from SBL to total govt. revenue are 0.06, 0.09, 0.12, 0.11 & 0.07 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax is 0.09%. The trend of percentage of income tax collection from SBL to total govt. revenue in the increasing way in all the years except the fiscal year 2010/011.
- The percentage of income tax from SBL to total revenues are 0.08, 0.12, 0.14, 0.13, & 0.08 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage is 0.11%. By studying trend analysis, it can be observed that it has been following increasing trend in all the years except the fiscal year 2010/011.
- The percentages of income tax from SBL to direct tax revenue are 0.34, 0.48, 0.74, 0.72, & 0.31 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax from SBL to

direct tax revenue is 0.52, by observing the trend study it can be seen that it has been following increasing trend in the except the fiscal year 2010/011.

- The percentages of income tax from SBL to total tax revenue are 0.49, 0.69, 0.93, 0.89, & 0.77 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax in total tax revenue is 0.75, by observing the trend study it can be found that it has been following increasing trend in all except the fiscal year 2010/011.
- The percentages of income tax from SBL, to corporate tax are 1.09, 1.35, 1.75, 1.69 & 1.39 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of corporate tax is 1.45. By observing the trend analysis it can be out line outlined that it has been following increasing trend in all except the fiscal year 2010/011.
- The percentage of income tax SBL to tax collection from commercial banks are 9.93, 13.33, 16.25, 14.73 & 9.41 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income collection is 12.73 % over the study period.
- The coefficient of relationship between EBIT & income tax paid is +.99. It reflects that there is positive relationship between tax paid & EBIT of SBL. By observing probable error it can be outlined that there is significant relationship between income tax paid & EBIT of SBL
- The coefficient of correlation between income tax liabilities & total liabilities of SBL is +0.4612. It shows that there is positive relationship between these two variables. Similarly by observing probable error can be out lined that there is no significance relationship between income tax liabilities & total liabilities of SBL.

4.1.19 Findings from Empirical Study.

The opinion survey plays crucial role for the betterment of present act, provision & procedures of income tax. It also suggests towards the government tax polices & other aspects. The study has included the tax administrator's tax experts' & bankers' view about the current rules, regulations & procedures of Nepalese Government.

As per this study, an option survey has been conducted so as to find out SBL contribute the income tax for govt. & its status on govt. revenue from the opinion survey with tax administrators,' tax experts' & bankers' the following findings can be outlined.

- The collection of income tax is not so satisfactory even if is regarded as the suitable means of rising govt. revenue in the context of Nepal.
- The collection of direct tax to national revenue is not so effective.
- Increasing habit of tax evasion, ineffective income tax administration & mass poverty & low Income level are the major reasons behind low contribution of income tax.
- The exemption & deduction granted by act are not appropriate& should be adjusted.
- The current income tax administration is not activating significantly & is not effective.
- Income Tax system of Nepal has not been reached at the satisfactory level yet.
- Conscious & honest tax payers; moral & honest tax officer & effective tax administration are needed for the effectiveness of income tax in Nepal.
- Progressive income tax is necessary to increase tax consciousness & raising the govt. revenue.
- The fine & penalty under the Nepalese tax system are not reasonable & should be increase to discourage tax evader & illegal activities.

- Vague provision in income tax law, expectation of illegal incentive by the tax personnel & lack of co-operation by the tax administrator are the major problems faced by the taxpayer while paying income tax.
- Income Tax contributed by banking sectors is satisfactory but not effective significantly.
- The income charged to banking sector is suitable.
- The banks are executing the concept of tax planning a bit.
- It is necessary to be adopted effective rules & regulations; to be strictly monitored & taking actions by NRB & to be extended the incentives & facilities provided to banking sectors primarily to foster the banking sector in Nepalese scenario.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This is the concluding chapter of the study. The chapter is divided into three sections. Summary, conclusions & recommendation, in this chapter, we summarize the study in brief. In the last section of this chapter, some recommendation have given, which are useful to stakeholders & to concerned companies as well. They can use these recommendations to take some correlation actions to take decision.

5.1 SUMMARY

Nepal is a small developing countries having low economic status. Due to mass poverty, weak industrial status, geographical complexities, technological backwardness, the economic development of this country is not so desirable. Even if having many attractive natural resources, they are not used fully & properly.

Today is a banking era. The number of bank & financial institutions is increasing nowadays. There is high & intense competition among these institutions in the market. They should be prefect & complete to compute with other. They are competing in a limited market area by attracting the customers with their products & services. However, they are assisting the govt. by various ways such as contributing income tax, revenue, providing employment opportunities, facilitating economic development etc. That is why, financial institutions are regarded as backbone & yardstick for the overall development of society & ultimately for the country. The govt. revenue is becoming enlarged by the increment of number of bank & financial institutions.

The govt. of a country requires sufficient fund to fulfill its responsibilities towards its people & nation. The basic needs like food, health, education, securities are to be fulfilled & other needs like administration, social welfare & foreign trade are to be

considered by the nation. Nepal is very much conscious about the poverty, unemployment, heavy dependence on agriculture, low income level & educational problems. So it is the prime concern towards the rapid economic growth & Nepal is not self-controlled economic system to upgrade into living standard of the people. The government has to spend a lot of money to achieve the maximum national objectives.

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

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

Internal sources of fund are own sources within the nation which is certain, convenient & reduce the dependency on the foreign countries. External sources of fund reduce the liquidity & increase the inflations. So, internal sources are more important not only for financing necessary funds but also for the mobilization of internal revenues. Nepal is being unable to mobilize its internal sources properly & effectively which is reflected clearly in the today's economy. On the other hand, sources of public revenue can be classified into two types. They are: (a) Tax sources & (b) Non- tax sources. Tax sources include the amounts, which is compulsorily contributed by the tax payers to the government. Non-tax revenue includes fees, special assessment, gifts & grants, fines & penalties etc. collected by the government. Government imposes the non-tax income according to the necessary. So it is uncertain & inconvenient. Income Tax can be defined as the contribution from people & business organization to the government from their Income either by service or from business without taking the corresponding or direct benefit. Tax is the most important source of revenue because it occupies the very big part of total revenue & income tax.

Tax evasion is the way of reducing tax liabilities by illegal means. Similarly, the tax evasion is the process of saving taxes without breaking the law. It is art of doing tax without actually breaking the law. Finally, tax planning is the planning of future activities that affect tax with an objective of reducing tax liability. It is a legal practice of making scheme where by the tax payer uses all concessions provided to him/her under tax law.

The incentives are as the motivating factor for the improvement of the organization. It is a kind of financial assistance & becoming an integral part of tax system for accelerating the peace of industrialization especially in developing countries.

Tax incentive related to the management affairs in regard to tax. Income Tax is administered directly by Inland Revenue Department. A sound system of the administration is prerequisite to access the taxation policies of the govt.

Even if the bank & financial institutions are growing rapidly, they are not contributing income tax significantly. In case of commercial bank, less than 1% of the income tax is occupied by them. By this fact, it can be realized that the banking sectors have poorly contributing income tax due to having insufficient amount of earned profit.

The banking sectors should be fostered & need to make strengthen for the sake of obtaining sufficient amount of income tax from them. For this, the facilities & incentive provided to them should be enlarged to maintain their quality improvement & stability. The quality improvement in banking sectors is essential for the sound & proper economic development of a country. They assist & ensure the different economic prospects & prosperity. Therefore, without any doubt the powerful of banks & financial institutions & their development are preferred. In Nepalese scenario, it is necessary to be adopted effective rules & regulations, to be strictly monitored & taking actions by NRB, to be extended the incentive & facilities provided to banking sectors so as to foster banking sectors.

5.2 Conclusion

The research has concerned subjected to Contribution to the Income Tax Revenue from Nepalese Banking Sector with Special Reference to Siddhartha Bank Ltd. & its status on government revenue. Income Tax is regarded as the important source of govt. revenue. It is the most imperative instrument for the internal resources mobilization of the country.

The research has conducted with the major objective of highlighting revenue & analyzes about the income tax liability of SBL. Similarly, evaluate the effectiveness

of income tax in regard to build up govt. revenue & assign suggestions & recommendations to foster the banking sectors are other objectives too. The research has carried out by using different statistical data, opinion survey & different tools. This research has carried the five years of study period.

The following data are the main conclusions draw from this study.

- The percentage of tax revenue on total government revenue are, 77.29, 77.16, 86.16, 89.19 & 86.86, in the year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage over the study period is 83.33
- The percentage of direct tax on total revenue are 19.11, 19.37, 16.17, 15.42 & 23.20 in the year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of direct tax on total revenue is 18.65%. In the same way the percentage on direct tax on total tax revenue are 24.73, 25.10, 18.77, 17.29, & 26.72 respectively. In the sane way the percentage of direct tax on total revenue is 22.52 % over the study period.
- The percentages of corporate tax on total income tax are 45.36, 51.39, 52.95, 52.94, & 55.40 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of corporate tax on total income tax is 51.61% over the study period.
- The corporate tax on government revenue. In the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 percentage of corporate tax on government revenue are 5.86, 6.90, 6.82, 5.66, & 5.18 respectively. The average percentage of corporate tax on government revenue is 6.25% over the study period.
- The percentage of corporate tax collected from commercial banks on total govt. revenue are 0.65, 0.70, 0.74, 0.75, & 0.77 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively . The average percentage is 0.72%, similarly the percentage of corporate tax collection from

commercial banks on total tax revenue are 0.84, 0.91, 0.86, 0.84, & 0.88%, in the respective fiscal year. The average percentage is 0.87 % over the study period.

- The percentages of income tax collection from SBL to total govt. revenue are 0.06, 0.09, 0.12, 0.11 & 0.07 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax is 0.09%. The trend of percentages of income tax collection from SBL to total govt. revenue in the increasing way in all the years except the fiscal year 2010/011.
- The percentages of income tax from SBL to total revenue are 0.08, 0.12, 0.14, 0.13, & 0.08 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage is 0.11%. By studying trend analysis, it can be observed that it has been following increasing trend in all the years except the fiscal year 2010/011.
- The percentages of income tax from SBL to direct tax revenue are 0.34, 0.48, 0.74, 0.72, & 0.31 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage is 0.52, by observing the trend study it can be seen that it has been following increasing trend in the except the fiscal year 2010/011.
- The percentages of income tax from SBL to total tax revenue are 0.49, 0.69, 0.93, 0.89, & 0.77 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income tax in total tax revenue is 0.75. By observing the trend study it can be found that it has been following increasing trend in all except the fiscal year 2010/011.
- The percentages of income tax from SBL, to corporate tax are 1.09, 1.35, 1.75, 1.69 & 1.39 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of corporate tax is 1.45. By

observing the trend analysis it can be outlined that it has been following increasing trend in all except the fiscal year 2010/011.

- The percentage of income tax from SBL to tax collection from commercial banks are 9.93, 13.33, 16.25, 14.73 & 9.41 in the fiscal year 2006/007, 2007/008, 2008/009, 2009/010, & 2010/011 respectively. The average percentage of income collection is 12.73 % over the study period.
- The coefficient of relationship between EBIT of SBL is + 0.99. It reflects that there is positive relationship between tax paid & EBIT of SBL. By observing probable error it can be outlined that there is significant relationship between income tax paid & EBIT of SBL.
- The coefficient of correlation between income tax liabilities & total liabilities of SBL is +0.4612. It shows that there is positive relationship between these two variables. Similarly by observing probable error can be outlined that there is no significance relationship between income tax liabilities & total liabilities of SBL.
- The collection of income tax is not so satisfactory even if is regarded as the suitable means of rising govt. revenue in the context of Nepal.
- The collection of direct tax to national revenue is not so effective.
- Increasing habit of tax evasion, ineffective income tax administration & mass poverty & low income level are the major reasons behind low contribution of income tax.
- The exemption & deduction granted by act are not appropriate & should be adjusted.
- The current income tax administration is not activating significantly & is not effective.
- Income Tax system of Nepal has not been reached at the satisfactory level yet.

- Conscious & honest tax payers; moral & honest tax officer & effective tax administration are needed for the effectiveness of Income tax in Nepal.
- Progressive income tax is necessary to increase tax consciousness & raising the govt. revenue.
- The fine & penalty under the Nepalese tax system are not reasonable & should be increase to discourage tax evader & illegal activities.
- Vague provision in income tax law, expectation of illegal incentive by the tax personnel & lack of co-operation by the tax administrator are the major problems faced by the taxpayer while paying income tax.
- Income Tax contributed by banking sectors is satisfactory but not effective significantly.
- The income charged to banking sector is suitable.
- The banks are executing the concept of tax planning a bit.
- It is necessary to be adopted effective rules & regulations; to be strictly monitored & taking actions by NRB & to be extended the incentives & facilities provided to banking sectors primarily to foster the banking sector in Nepalese scenario.

5.3 Recommendations.

Based on the major findings of this study, some recommendations have been made so as to overcome some shortfalls regarding income tax aspects.

Definitely contribution of income tax plays significant role to national revenue of a country. But, in the context of Nepal, contribution of income tax is not significant. Primarily, increasing habit of tax evasion, inefficient income tax administration & mass poverty are the main caused behind this fact. That is why the following methods should be strongly adopted to make income tax effective.

- The public should make responsive with supportive awareness program through different media & face interaction.
- The income tax administration should make transparent, efficient & effective & need to be reformed to active promptness in work.
- The reward & punishment system should be strongly implemented by launching effective income tax laws & act so that nobody can avoid tax & tax evasion activities.
- The govt. of Nepal should be centralized to reduce mass poverty by commencing different programs.
- The appropriate tax rate should be charged & maintain proper exemption & deduction limit as per the charge requirements.

The level of effectiveness of income tax in Nepalese scenario is low. To maintain sound & appropriate effectiveness of income tax, the following tasks should be undertaken.

- The taxpayer should make him/her self conscious & honest.
- Not only tax payers but also tax officers should be morally fit & honest him/herself. They should not be excepted illegal incentives by taxpayers.
- Clear act, rules & regulation should be adopted.
- Political stability should be maintained which enables to keep all mechanisms equilibrium.

A true taxpayer has been facing different kinds of problems while paying income tax. These problems can be eliminated by executing the following methods.

- The duality & vague provision in income tax law should be removed & amended.
- There should be rigid punishment system to be implemented to those personnel who are expecting illegal incentives.

- The tax administrators should be absolutely cooperative & helpful towards tax payers.
- The process of paying tax should make prompt with the removal of unnecessary time.

Unquestionably, the advancement in the banking sectors is essential for the sound economic development. So, banking sectors are regarded as backbone of economic prospects. On the other hand, the banking sectors are contributing income tax to the government which is comparatively highest among tax are charged to others. That is why to promote & foster the banking sectors, the following recommendations are suggested to the basis of this study.

- The incentives & facilities provided to banking sectors are to be enlarged so as to assure their development & extend their approach in all areas.
- The merging process should be implemented in the banking sectors in a wide basis to make them well-built in the form of capital, comparativeness, market coverage, strategic planning etc.
- The effective monitoring & prompt auctioning system should be executed by NRB to all banks & financial institutions for the aim of maintaining balance environment in the banking sectors.
- The effective rules & regulation are needed to implement by the govt. so that it can be make banking sectors dynamic & fruitful.

Incase of SBL, the following recommendations are suggested.

- The percentage of income tax contributed by SBL has been decreased in the year 2010/011. It shows that the necessary of improving overall operating efficiency. In deed improvement in overall mechanism ensures more profit & having high level of Income tax to the government.

- The slogan "Our business is to understand your business" has been carrying by SBL that is why, it has to conduct its business in a wide basis by providing distinct product schemes with the coverage to huge market.
- The area of SBL is limited in city area only. So, it needs to remote & urban areas where it can take potential business ability.
- The taxpayers should be highly literate which helps him/her to understand the tax law & act. The taxpayer should not try to deceit the tax.
- Income Tax management has its lengthy process of income tax assessment. Tax payers never want the lengthy & time consuming of assessment. That is why the management has tri to make it faster & short process of income tax assessment.
- Tax system should be simple, fair, equitable, efficient & effective tax administration has to motivate the taxpayers to pay tax so that they have to give knowledge about tax to the public.
- For the convenience of taxpayer the existing exemption limit should be adjusted according to inflationary situation of the country.
- Tax personnel should be encouraged, punished & transferred on the basis of their work & experience. Regular & effective training system, reward, prize & punishment system should be established for the effective personnel management.
- Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayer' positive attitude towards taxation.
- Clear provision should be made in case of deduction. All the item of deductions should be clearly defined in the act.
- Income Tax policy should be formulated according to the economic policy of the country. Income Tax policy should be revised timely.

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Balance sheet & income statement

Appendix-1

Calculation of correlation coefficient between EBIT & tax paid by SBL

(Rs in millions)

| Fiscal year | EBIT(x) | Income tax (y) | x y | x ² | y ² |
|--------------|----------------|----------------|-------------------|-------------------|-------------------|
| 2006/007 | 173.55 | 40.03 | 6947.2065 | 30119.6025 | 1602.4009 |
| 2007/008 | 282.19 | 65.77 | 18559.6363 | 79631.1961 | 4325.6929 |
| 2008/009 | 375.35 | 98.66 | 37032.031 | 140887.6225 | 9733.7956 |
| 2009/010 | 438.00 | 103.69 | 45416.22 | 191844.00 | 10751.6161 |
| 2010/011 | 512.77 | 129.96 | 66639.5892 | 262933.0729 | 16889.6016 |
| Total | 1781.86 | 438.11 | 174594.683 | 705415.494 | 43303.1071 |

We know that,

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 174594.683 - (1781.86)(438.11)}{\sqrt{5 \times 705415.494 - (1781.86)^2} \sqrt{5 \times 43303.1071 - (438.11)^2}}$$

$$= \frac{92322.7304}{93014.7524}$$

$$= 0.99$$

Again, P.E. = $\frac{0.6745 \times (1-r^2)}{\sqrt{N}}$

$$PEr = \frac{0.6745(1-0.99^2)}{5}$$

$$= 0.006$$

Again, 6 × PEr = 6 × 0.006

$$= 0.036$$

Appendix-2

Calculation of correlation coefficient between total liabilities & income tax liabilities of SBL

(Rs. in millions)

| Fiscal year | Total liabi. (x) | Income tax liabi. (y) | x y | x ² | y ² |
|--------------|------------------|-----------------------|--------------------|-------------------|-----------------|
| 2006/007 | 7954.66 | 5.20 | 41364.232 | 63276615.72 | 27.04 |
| 2007/008 | 11668.35 | 11.16 | 130218.786 | 136150391.70 | 124.5456 |
| 2008/009 | 17881.75 | 4.85 | 86726.4875 | 319756983.10 | 23.5225 |
| 2009/010 | 22802.43 | 7.43 | 169422.0549 | 519950813.90 | 55.2049 |
| 2010/011 | 24405.85 | 15.66 | 382195.611 | 595645514.20 | 245.2356 |
| Total | 84713.04 | 44.30 | 809927.1714 | 1634780319 | 475.5486 |

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 809927.1714 - (84713.04) (44.30)}{\sqrt{5 \times 1634780319 - (84713.04)^2} \sqrt{5 \times 475.5486 - (44.30)^2}}$$

$$= \frac{296848.185}{643628.3156}$$

$$= 0.4612$$

$$\text{Again, P.E.} = \frac{0.6745 \times (1-r^2)}{\sqrt{N}}$$

$$\text{Again, PEr} = \frac{0.6745(1-0.4612^2)}{5}$$

$$= 0.2375$$

$$\text{Again, } 6 \times \text{PEr} = 6 \times 0.2375$$

$$= 1.425$$

Balance sheet

(In Rs.)

| Capital & liabilities | 2006/007 | 2007/008 | 2008/2009 | 2009/10 | 2010/2011 |
|----------------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| Share capital | 600000000 | 828000000 | 952200000 | 1310436445 | 1618236900 |
| Reserve & surplus | 193709939 | 240346086 | 326544527 | 293105663 | 370140936 |
| Debenture | | | 227770000 | 227770000 | 227770000 |
| Borrowing | 430000000 | 205132877 | 327600000 | 345000000 | 45000000 |
| Deposit & liabilities | 6625078506 | 10191440970 | 15854798403 | 20197029402 | 21575653982 |
| Bills payables | | 15884195 | 17877084 | 35703895 | 2685783 |
| Proposed dividend | 4736842 | 6536842 | 7517368 | 131456632 | 200939258 |
| Income tax liabilities | 5203446 | 11155193 | 4845928 | 7439133 | 15659099 |
| Other liabilities | 95935742 | 169859787 | 162596828 | 254488130 | 349759091 |
| Total liabilities | 7954664475 | 11668355950 | 17881750138 | 22802429300 | 24405845049 |
| Assets | | | | | |
| Cash Balance | 130442580 | 149006950 | 270945787 | 326868203 | 491249342 |

| | | | | | |
|---|-------------------|--------------------|--------------------|--------------------|--------------------|
| Balance with Nepal Rastra Bank | 380563747 | 270219328 | 984981288 | 1027465065 | 1222411895 |
| Balance with Bank & other financial institution | 6220027 | 18198991 | 291757026 | 1052276937 | 192023742 |
| Money at Call & Short Notice | 229446305 | 584735884 | 484840000 | 699042011 | 882781384 |
| Investment | 865188561 | 1150095800 | 2176177797 | 2452475662 | 2537909426 |
| Loans, Advances & Bills received | 6222586813 | 9335597738 | 13328621515 | 16653851922 | 18384033093 |
| Fixed Assets | 46667101 | 72398043 | 172158131 | 360425762 | 368173634 |
| Non Banking Assets | 10173349 | | | | |
| Other Assets | 63375992 | 88103216 | 172268594 | 230023738 | 327289533 |
| Total | 7954664475 | 11668355950 | 17881750138 | 22802429300 | 24405872049 |

| | | | | | |
|---------------|--|--|--|--|--|
| Assets | | | | | |
|---------------|--|--|--|--|--|

Income statement

(In Rs.)

| Years | 2006/007 | 2007/008 | 2008/2009 | 2009/10 | 2010/2011 |
|------------------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Income | | | | | |
| Int. income | 481523807 | 729872484 | 1265582131 | 2018291813 | 2690294141 |
| Fee, commission & dis. | 20177802 | 21454424 | 32547830 | 42758283 | 68049045 |
| other operation income | 18659095 | 31294159 | 46354212 | 50694422 | 62252282 |
| Foreign exchange gain | 14245653 | 27487389 | 38682163 | 12167702 | 38689741 |
| Total Income | 534606357 | 810108456 | 1383166336 | 2123912220 | 2859285209 |
| Expenses | | | | | |
| Int. expenses | 271710950 | 408188955 | 813619042 | 1406489572 | 1925243099 |
| Staff expenses | 33620506 | 48247208 | 79384785 | 103680178 | 155803411 |
| other operating expenses | 55721156 | 71480863 | 114816885 | 175735300 | 265477124 |
| Total expenses | 361052612 | 527917026 | 1007820712 | 1685905050 | 2346523634 |

| | | | | | |
|-------------|------------------|------------------|------------------|------------------|------------------|
| EBIT | 173553745 | 282191430 | 375345624 | 438007170 | 512761575 |
|-------------|------------------|------------------|------------------|------------------|------------------|

Cash flow statement

(In Rs.)

| Activities | 2006/007 | 2007/008 | 2008/2009 | 2009/10 | 2010/2011 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| A. Cash flow from operation Activities | | | | | |
| 1. Cash receucwe | 534387080 | 810614678 | 1388421389 | 2123912220 | 2849610786 |
| 1.1 Interest income | 481268995 | 729872484 | 1265582131 | 2018291813 | 2680619718 |
| 1.2 Comission 7 dis income | 20177802 | 21454424 | 32547830 | 42758283 | 68049045 |
| 1.3 Exchange fluction gain | 14245653 | 27487389 | 38682163 | 12167702 | 38689741 |
| 1.4 Recovery of loan written off | | | | | |
| 1.5 other income | 18694630 | 31800381 | 46354213 | 50694422 | 62252282 |
| 1.6 Deferred tax revenue | | | 5255052 | | |
| 2 Cash payment | 383830704 | 595774179 | 1115329574 | 1769003531 | 2418793253 |
| 2.1 Interest Expenses | 271710950 | 408188955 | 813619042 | 1386818348 | 1910297401 |
| 2.2 Staff expenses | 33620506 | 48247208 | 79384785 | 134180467 | 190671004 |
| 2.3 office operating Expenses | 38466054 | 71480863 | 114816885 | 142769757 | 189789561 |
| 2.4 Income tax paid | 40033194 | 65769319 | 98651396 | 103688012 | 129959990 |
| 2.5 other expenses | | | 8857466 | | -1924703 |
| 2.6 Deferred tax Expenses | | 2087834 | | 1546947 | |
| | | | | | |
| Cash flow before changes in working Capital | 150556376 | 214840499 | 273091815 | 354908689 | 430817533 |
| | | | | | |
| Increase/(Decrease)in current assers | -2.805E+09 | 3810899190 | -4.828E+09 | -3.837E+09 | -2.11E+09 |
| 1.(Increase)/Decerase in Mney at at call & shortnotice | -129446305 | -355289579 | 99895884 | -214202011 | -183739373 |
| 2.(Increase)/Decerase inShort term Investment | -199210391 | -284027237 | -819881997 | -174010133 | -86251213 |
| 3.(Increase)/Decerase in Loan & Bills purchased | -2.45E+09 | 3161059745 | -4.024E+09 | -3.391E+09 | -1.752E+09 |
| 4.(Increase)/Decerase in other Assets | -26310833 | -24727224 | -83915379 | -57755144 | -87682039 |
| 5.(Increase)/Decerase in Non Banking Assets | | 14204595 | | | |
| | | | | | |

| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Increase/(Decrease)in current Liabilities | 2992246157 | 3409605391 | 5750054197 | 4445310585 | 1116032270 |
| 1.Increase(Decerase) in Deposit | 2707002289 | 3566362464 | 5663357433 | 4342230999 | 1378624580 |
| 2.Increase(Decerase) in Certificate deposit | | | | | |
| 3.Increase(Decerase) in short term Borrowing | 248850000 | -224867123 | 122467123 | 17400000 | -300000000 |
| 4.Increase(Decerase)in other Liabilities | 36393868 | 66465613 | -37763248 | 67852775 | 37407690 |
| 5.Increase (Decerase) in Bills payables | | 1644437 | 1992889 | 17826811 | |
| Cash flow from operating Activiries | 337377799 | -186453300 | 1195235762 | 963699358 | -562670037 |
| | | | | | |
| | | | | | |
| B. Cash flow from Investing Activities | -36097751 | -26610943 | -306210088 | -312662331 | -81185253 |
| 1.(Increase)/Decerase in Long term Inverstent | -14999000 | -880000 | -206450000 | -102287732 | 817449 |
| 2.(Increase)/Decerase inFixed assets | -21353563 | -25730943 | -99760088 | -221233176 | -83435435 |
| 3.Interest income from Long term Investment | 254812 | | | | |
| 4.Divident Income | | | | 750000 | 1050000 |
| 5. Other income | | | | 10108577 | 382733 |
| C. Cash flow from Financing Activities | 100000000 | 133263158 | 221233158 | 207889077 | 142930063 |
| | | | | | |
| 1.Increase (Decerase) in Long term Borrowing | | | | | |
| 2.Increase (Decerase) in Shre capital | 100000000 | 138000000 | | 215406445 | 274386695 |
| 3. Debenture | | | 227770000 | | |
| 3.Increase (Decerase) in Other liabilities | | | | | |
| 4.Increase/ (Decerase) in Refinance/ facilities received from NRB | | | | | |
| 5.Increase (Decerase) in Proposed dividend & div payableB | | -4736842 | -6536842 | -7517368 | -131456632 |
| | | | | | |
| | | | | | |
| d. Effects of exchange rate changes on cash & Bank Balances | | | | | |
| E.Net Cash Flow for the years(A+B+C) | 401280048 | -79801085 | 1110258832 | 858926104 | -500925227 |
| F.Opening cash & bank balance | 115946306 | 517226354 | 437425269 | 1547684101 | 2406610205 |
| G. Closing Cash & Bank Balance | 517226354 | 437425269 | 1547684101 | 2406610205 | 1905684978 |

Appendix – 3

Questionnaire

Name:

Occupation:

Designation /Position:

Office/Organization:

Q.N. 1. Do you think that the contribution of direct tax to total revenue is effective?

a. yes []

b. No []

Q.N. 2. What are the major reasons for low contribution of income tax to national revenue?

- Defective income tax
- mass poverty & low income
- Increasing habit of tax evasion.
- Inefficient income tax administration.

Q.N. 3. In your opinion, is satisfactory contribution of income tax to national revenue of Nepal?

a. yes []

b. No []

Q.N. 4. In your opinion, which income tax is suitable for Nepal?

a. Progressive

b. proportional

c. Regressive.

Q.N. 5. Do you agree that Nepalese tax administration is effective to raising govt. revenue?

a. yes []

b. No []

Q.N. 6. In your view, is income tax contributed by banking sectors effective to build up govt. revenue.

a. yes []

b. No []

Q.N. 7. In your opinion, is facilities & incentive granted to banking sectors effective under ITA 2058?

a. yes []

b. No []

Thank you.....