

CHAPTER-ONE

INTRODUCTION

1.1 General Background

Nepal is facing the critical challenges of alleviating poverty, correcting inequalities in the distribution of income and opportunities, delivering the basic services to people, advancing and sustaining growth and development. To develop the country it has adopted its own style and economic tools. It has adopted the mixed economic policy to increase efficiency of economy as well as to achieve development goal. The wide spread ruler poverty and failure to reap the benefits of developments equally to all is one of the critical factor for Nepal's development. Therefore solving the rural areas problem can't be easy. In order to increase economic growth as well as quality of people's life, it has adopted the planned policy. The government of Nepal has been pursuing planned development since five decades but due to its poor implementation no good results were seen and the poverty line of people here is same and at very high.

We can realize the main cause of poverty is because of minimum utilization of available resources and resource gap. To solve this it also has adopted open door policy that would help increase the resource mobilization. The major objective of the policy is to use external financial sources and technical support for meeting the resource gap. But the plan made to support the policy has been an obstacle rather than a catalyst due to various reasons.

Government is kind of administrative entity, which is formed by people. It has many responsibilities, some of them are: keeping peace and security, handle the day to day administration, development program and launching other public welfare programs. To fulfill the above responsibilities, Government requires huge amount which is called government (public) revenue.

There is significant resource gap problem in Nepalese economy. Public expenditure is greater than public revenue. The resource gap has been rapidly increasing in the recent years. In the fiscal year 2001/2002 total expenditure was Rs. 8007.22 million and total revenue was Rs. 5713.16 million. The resource gap was Rs. 2294.06 million. In the fiscal year 2010/11 total expenditure was Rs. 29536.34 million and total revenue was Rs. 24574.12 million. The resource gap was Rs. 4962.22 million. The resource gap was increased by 116.31% during the study period from fiscal year 2001/02 to fiscal year 2010/11. It is necessary to increase the government revenue. It is collected from various sources; we can divide into two major parts, external and internal sources. (Economic Survey 2011/2012).

External sources are foreign grant and loan. This kind of fund is received from foreign countries which is more important for underdeveloped country like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover crisis condition and productive use (Sharma 2002: 26). But such external sources are uncertain, inconvenient and not good for healthy development of nation not only they have to be returned after certain due date but also it has a heavy dependent on them. So it is better to mobilize internal sources rather than looking with beggars eye to donors (Pant, 1996; 29).

Internal source of funds includes both tax and non-tax revenue. Tax revenue includes the amounts, which are compulsorily contributed by taxpayers to the government. Tax sources include excise duty, VAT, income tax etc. Non tax sources include different revenues like gifts, grants, revenues from public enterprises, administration revenue such as registration fees, fines and penalties. Non tax revenue is inconvenient and uncertain because they are levied according to the necessary of government. But tax revenue not only contributes in nation capital formation but also in equal distribution of national income of the country. It helps to reduce the unequal distribution of public revenue and it has been taken as the best effective tools for raising the fund

(Sharma, 2002: 38). In Nepal around eighty percent of the government revenues come from taxation. Hence tax is the major source of government revenue (Bhattarai & Koirala, 2065).

Tax is any compulsory levy from individuals, households and firms to central or local government. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the tax payers to the government. Tax is computed and paid as per prescribed in the law. Taxpayer can't claim direct benefit because of tax payment the government mobilizes these taxes amount for public interest. Taxpayer does not receive the equivalent benefit from the government. Tax is paid to the state to perform the function of the government and amount of tax is spending for common benefits and interest of people. (Bhattraai & Koirala, 2065).

Prof. Seligman defined tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."

From the above definition, it can be concluded that tax is a compulsory levy imposed by the government as per the prevailing laws. Those who pay tax do not get corresponding benefits from the government and it is spent for common interest of people. Thus we can define tax as a compulsory contribution made by taxpayers to the government without having any direct personal benefits. Generally Tax is classified into direct tax and indirect tax. A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax the person paying and bearing tax is the same. It is the tax on income and property. Indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures.

Income tax is the most popular direct tax, it is considered as one of the major element of tax revenue. Income tax is imposed on the income of a person and organization according to the law of nation. It covers all the fees,

additional fees, fines related to income tax. Income includes all the income, which are received from business, investment and employment. Income tax is superior to other because it is imposed on the basis of paying capacity of taxpayers. The more you earn the more is the tax burden. Income tax plays very important role in Nepalese economy. Income tax is one of the better sources of public revenue. It is one of the tools achieving maximum social and economical objectives as laid down by the constitution of Nepal. Income tax also helps to increase the awareness and make the people realize the social responsibilities because the people who have paid the income tax are interested in public expenditures (Dhakal 2002: 10-16).

In the year revenue structure of Nepal, share of tax revenue and not tax revenue are Rs. 172755.20 million and 27064.30 million respectively in fiscal year 2010/2011 where the income tax contribution is Rs. 42066.30 million only. Income tax contribution on total tax revenue is 24.35 percentages. Here income tax includes income tax from Government Corporation, Public Limited, Private Corporate Bodies, Individual and Sole Trading Concern, Remuneration Income, Investment Income and other income. (Economic survey 2011/12).

Generally bank is an institution that deals with money. A bank performs several financial, monetary and economic activities, which are vital for economic development of country. It is a monetary institutional vehicle for domestic resources in the field of agriculture, trade, commerce etc. Banks are financial institution. They are providing loan and other banking services. They support the national economy. Most of the loan provided by banks is used for generating income. If income increases income tax and revenue of the government also increases. In one way tax there is a direct relationship between the government revenue and the income earned by people. If loan are used in consumption, it also support increasing the income. Banks are significant tax payer institutions. Tax payment by banks makes significant impact in total revenue of government and total income tax.

1.2 Introduction of Bank

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institutional involved in monetary transaction is called bank. A bank simply carries out the work of exchanging money, providing loan, accepting deposit and transferring the money. Section 23 (a) of the Nepal Rastra Bank Act 2058 (2002) defines bank as follows: "Bank" means the Nepal Rastra Bank established under section 3 of this Act. Like-wise, according to section 23 (b) of the commercial Bank Act 2031 (1974), bank means" a commercial bank established under this Act". Through the banks by both of these acts are called bank, we do not find dear definition of it. In addition to this, section 2 (a) of the Negotiable Instrument Act 2034 (1977) defines that a bank, which is established under the existing law shall be called bank.

"A bank is an institution which collects money from those who have it spare or who are saving it out of their income and lends this out to those who require it."(G. Crowther)

"A bank is established which makes no individual such advertences of money as may required and safety made and to which individual entrust money not required by them for use." (Professor Kinley)

"A bank is an established for the custody of money received from or a behalf of its customers, it essential duty is to pay their draft on it, its profit arises from its use of the money left unemployment by them." (Shorter Oxford English Dictionary)

1.2.1 Origin of Bank

In Thomson's Dictionary of Banking, it is stated that the word bank is said to be derived from the Italian Word "Banco", a bench. The early bankers, the Jews in Lombardy, transacted failed, his "Banco" was, broken up by the people, whence on word bankrupt. One of the early Italian banks, the Bank of

Venice, was originated for the management of a public loan, or "Monte", as it was called Maclead, however, does not agree with this view and says "The Italian money charges as such were never called "BRANCHEIERI" in the middle ages." It may be more correct to say that at the period the Germans were masters of the great part of Ital and the word bank derived from the German word "Bank" came to be used as its Italian equivalent Monte" or "Banchi". Hence "Bank" in German language, "Banco" in Italian, "Banke" in frenches and "Bank" in England was used.

In the opinion of French writer Revil Pout, the uses of bank notes were started in Bablyon in 600 B.C. And the "Bank of Venice" of Italy was established in the middle ages. The use of it in India was started as far ancient age. Kautilya's economic also describes bank. The Manusmirti too has explained in the banking system of ancient age. Banking custom and tradition begun before 8th century in Nepal before 12th century, the got smiths and other similar types of bankers used to collect the money and provide loan to the needed.

1.2.2 History of Banking in Nepal

The history of banking in Nepal may be described as a component of gradual and orderly evolution in the financial and economic share of the Nepalese life. The financial system is still in the evolutionary phase. The existence of unorganized money markets consisting of money lenders, lenders, landlords act as barriers to institution credit.

Prior to establishment of Nepal Bank Limited there was no organized financial institution. In Nepal "Tejrath" was established in 1933 (1876 A.D.) for simple banking transaction. The establishment of Tejarath fully subscribed by the government in Kathmandu and was one of them.

The main purpose of setting of Tejarath was to provide credit facility to the general public. At the rate of interest of 5%.The establishment of this

institution marked the beginning of extending credit through any financial institution relieving the people from the exorbitant rate of the interest charged to money lenders.

The Tejarath was set up with the solo objection of providing credit but it did not accept deposits from the public, so to solve problem of the people to deposit money Nepal Bank was established. In co-operation with the Imperial Bank India, Nepal Bank Limited came into existence as the first commercial bank in Nepal in year 1937.

Nepalese economy faced various difficulties associated with an unstable exchange rate and the problems created by the dual currency system. Therefore an urgent necessity was felt for the establishment of a central Bank to manage the circulation of National currency and to maintain exchange rate stability Nepal Rastra Bank was formulated in 1955 and on April 26, 1956 Nepal Rastra Bank came to existence as the central Bank.

The monetary transaction got more complicated NRB suggested the government to establish another commercial bank and so Rastriya Banijya Bank established in 1966 as second commercial bank of Nepal Apart from this banks that came into existence were:

Nepal Industrial Development Bank.

Agriculture Development Bank.

Having realized that, Nepal Bank and other government owned banks are not sufficient to cope with the fast changing economic environment. They permitted the private sector to operate private bank in Nepal. Later number of private and joint venture banks are comes in to existence in Nepal. Now 32 commercial banks are operating in Nepalese banking market.

1.2.3 Joint Venture Bank

A Joint Venture is formed by way of two or more enterprises joining together for the purpose of carrying out a specific operation (industrial or commercial investment, production, trades). Joint Venture Bank are commercial banks formed by the joining of two more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industries or trades to achieve mutual exchange of goods and services.

Nepal is adopting mixed economic policy with participation from both private and semi government organization. According to mixed economic strategy and liberal economic policy, several Joint Venture Banks are operating simultaneously. The first Joint venture bank of Nepal is Nepal Arab Bank Ltd. (NABIL) which was established in 2041 B.S. under commercial Bank Act 2031. Then many other Joint Venture Banks were set up under the Commercial Bank Act 2031. Nepalese Joint Venture banks should take initiation to search new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time banks and financial institutions are offering very low interest rate on deposit. In this situation, Nepalese Joint Venture Banks are required to explore new opportunities to make investment if they want to survive in the competitive market, since commercial banks can inspire entrepreneurship, the banks should also consider nation's interest and government emphasis's for the economic growth of the country by the development of industry and business and fulfill the objective of the profit making. Given below is the list of Joint venture Banks now operating in Nepal.

Nepal Arab Bank Ltd. (NABIL, 2041)

Standard Chartered Bank Nepal Ltd., (Previously Nepal Grind lays Bank Ltd.) (2043).

Himalayan Bank Ltd (2049)

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

Nepal Bangladesh Bank Ltd. (2051).

Everest Bank Ltd. (2051).

Brief Introduction of Joint Venture banks are as follows:

1. Nepal Arab Bank Ltd. (NABIL)

NABIL Bank is the first Foreign Joint Venture Commercial bank of the Nepal. It is incorporated in July 1984 A.D. (2041 B.S.) in Nepal. Initially, Dubai Bank Ltd. (DBL) invested 50% of share in this bank; the shares owned by DBL were transferred to Emirate bank International Ltd (EBIL) Dubai. Later EBIL sold its entire stock to National Bank Ltd Bangladesh (NBLB). NBLB is managing the banks which are in operation in the country. Now the share of invested by the foreign investor NB International Limited is 50% and national investor is 50%.

NABIL Bank is rated a successful commercial bank, it has been helping business communities and the government in different ways since its establishment. This bank has achieved the bank of the year 2004 awarded. Now the bank is well known as NABIL Bank Limited and it has more than 52 branches and extension counter all over the Nepal. Its authorized capital is Rs. 300 millions and paid up capitals is Rs. 202.97 millions

2. Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Ltd was incorporated in 1987 as a second foreign Joint venture bank under the commercial Bank Act 2031. The foreign Joint Venture partner was Grindlays Bank Ltd. That was managing the bank under Joint Venture and technical services agreement signed between it and Nepalese promoters. Grindlays Bank merged with standard chartered bank Group. Therefore, its international partner is standard chartered Bank Group. Standard charter Bank group hold 75% of its shares and Nepalese Public

owned by 25% of its share. It's authorized and paid up capital is Rs. 200.00 million and Rs. 160.00 million respectively. There are more than 19 branches and extension counter of standard chartered bank all over the Nepal.

3. Himalayan ban Limited

Himalayan Bank Limited was incorporated in the 1992 A.D. (2049 B.S.). It was established under the commercial Bank Act 2031. It is a foreign Joint Venture Bank and the foreign investment partner is Habib Bank Ltd. of Pakistan. Habib Bank Ltd. Holds 20% of its share. This is first Joint Venture Bank managed by Nepalese chief executive. There are more than 39 branches and extension counter of Himalayan Bank Limited which are in operation all over the Nepal. It's authorized and paid up capital is Rs. 300.00 million and 200.00 million respectively.

4. Nepal SBI Bank Limited

Nepal SBI Bank Limited was incorporated in 1993 A.D. (2050 B.S.). It was established under the commercial Bank Act 2031. It is also a foreign joint venture bank. Its foreign investment partner is state bank of India and holding 55.28% of equity share. The bank is managing under the joint venture and technical services agreement signed between it and Nepalese promoters. There are more than 56 branches and extension counter of Nepal S.B.I. Bank Limited all over the Nepal in operation. It's authorized and paid up capital are Rs. 300.00 million and Rs. 200.00 million respectively.

5. Nepal Bangladesh Bank Limited:

Nepal Bangladesh Bank limited was incorporated in 1994 A.D. (2051 B.S.). It was established under the Company Act, 2021 B.S. and Commercial Bank 2031. It is also foreign Joint Venture Bank and foreign partner IFIC Bank Limited of Bangladesh. It holds 22.95% share of NBB Limited. It is managing under the Joint Venture and Technical services agreement signed between it

and NBB. It has more than 19 branches and extension counter all over 300.00 million and Rs. 200.00 million respectively.

6. Everest Bank Limited:

Everest Bank Limited was incorporated in 1992 A.D. (2052 B.S.). It was established under the Commercial Bank Act 2031. It is also a Foreign Joint Venture Bank with the Punjab National Bank Limited of India and that hold 20% shares capital. The bank is awarded by the Bank of the year 2006 Nepal. It has the largest network among the private sector Bank in Nepal which has more than 50 branches, 3 extension counters and 21 revenue counters all over the Nepal. It's authorized capital and paid up capital are Rs. 200.00 million and Rs 176.11 million respectively.

1.3 Statement of the Problems:

The income tax is a vital source of the government revenue. Two types of income taxation are applied viz. personal income tax and corporate income tax. Creating tax liabilities to the individuals who make taxable income raises is known personal income tax. However, individual become dishonest and hide the real income. They enjoy the weakness as of tax law and escape from the tax administration. There is some corrupt staff in Inland Revenue Department and Offices, who encourage the taxpayers to evade tax liabilities. Similarly, the department can not find out the actual number of income taxpayers.

On the other hand, the corporate tax is levied upon the profit of companies. There are some obvious arguments in favor of raising a large amount by way of corporation taxation in developing countries. The first is the easy of collection. Corporations are easily identifiable, keep accounts and cannot escape tax liabilities. In these respects, they are almost administration's dream. A further point is that taxes collected in this way often appear painless. Therefore, it is seem that more income tax collection from corporation is possible of the economic development of the nation. But indeed, it cannot raise

more income tax from corporation because of less development of industries and joint stock companies in the nation. In addition, the corporation income is often only a small part of GNP. It may raise question why tax rates of corporation cannot be pushed too high for collecting more income tax revenue. However, the tax rate should be balanced for the economic development. High company tax rates may discourage the formation enterprises. Furthermore, the absence of the fear of competition from new corporations may very well strengthen tendencies to monopoly or oligopoly among existing entities.

There are thirty two commercial banks in Nepal. Among them six commercial banks are operating as Joint Venture Banks in Nepalese Market. Joint Venture Banks are corporate bodies. They are profit-oriented organizations. They make profits from the financial transactions by rendering services to the public and business organizations and pay income tax to the government from their taxable income. There are also some problems in collection of income tax from Joint Venture Banks. Some Joint Venture Banks have appealed to revenue tribunal time to time. It shows there are some weaknesses in tax assessment of such Joint Venture Banks and vague law and regulation of income tax and finance Act. Areas of banking business are increasing day to day but contribution of banks in income tax is not increasing so highly. What is the problems of Joint Venture Bank that they cannot use their facilities which are providing by income tax act? These are the main concentrate problems of this study to solve as far as possible to mobilize more resources through income tax from Joint Venture Banks.

Besides the above problem, the study addresses the following research questions.

- ❖ Is there significant contribution in Income Tax by Joint Venture Banks in government revenue?
- ❖ Does income tax paid by Joint Venture Bank have significant impact in total income tax?

- ❖ Are there sufficient special features facilities and benefits provided to banks under tax law?
- ❖ What are the fundamental income tax related problems of Joint Venture Bank?
- ❖ What are the solutions of these problems, which are facing by Joint Venture Bank?

1.4 Objectives of the Study:

The main objective of the study is to highlight the corporate income tax collection from Joint Venture Bank by the government for the last ten fiscal years (fiscal year 2001/02 to fiscal year 2010/11). The other specific objectives of this study are listed below.

1. To find out the contribution of tax paid by Joint Venture Bank in the total government revenue.
2. To identify the contribution of income tax paid by Joint Venture Banks on total tax revenue and total income tax.
3. To find out the relation of Income Tax from Joint Venture Banks with Tax Revenue and Income Tax Revenue.
3. To point out the major income tax related problems faced by Joint Venture Banks.
4. Put out forward necessary suggestions and recommendations for income taxation with reference to commercial banks.

1.5 Hypothesis:

Hypothesis is the backbone of research. It is the starting point of investigation. There are different formats for formulating and starting hypothesis. This format of hypothesis construction depends upon the nature of

relationship predicted by the researcher. Directional hypothesis indicates the direction of the relationship between two variables. The non-directional hypothesis is formulated when there are no clues available about the positive or negative relationship between two variables. Following hypothesis is formulated and tested in this study.

Null Hypothesis (H_0):

There is no significant difference between the opinion of bankers and tax experts about the contribution of Joint Venture Banks on income tax revenue.

Alternative Hypothesis (H_1):

There is significant different between the opinion of bankers and tax experts about the contribution of Joint Venture Banks on income tax revenue.

1.6 Significance of the Study:

Nepal is a landlocked and developing country. It is an agriculture country depending more than 80% of its people on agro production for their livelihood. For the economic development of the nation, it is necessary to be industrialized. But lack of technological education, less development of infrastructures and under developed economy; the country is not able to be industrialized. For the correction and solution of these problems (limitations), the government needs huge amount outlay. But the resources are limited. In this circumstance, the government has to search for the potential resources to collect more revenue as for as possible. The income tax (part of internal resource) is one of the major sources that can be increased through proper correction in collection procedures and identification of potential taxpayers. So, it becomes necessary to analysis the different income tax payers under each head and income tax collected from each group of taxpayers time to time. Joint Venture Banks are also income taxpayers. The problems they are facing in tax paying should be corrected so that they may contribute more income tax the

national receipts. Joint Venture Banks are such institutions, which are directly linked with most other business activities. The condition of business, trade and industries can be visualized through the analysis of activities of Joint Venture Banks. A tax collection analysis from Joint Venture Banks may help to locate potential new and hidden taxpayers. Besides, this analysis may be useful to make new policies for granting various facilities to the Joint Venture Banks for making more taxable income in the competitive environments and legal correction, vague section of income tax can also be rectified from such analytical study. This study is concerned with these aspects and it tries to make appropriate recommendations for the correction of problems in paying income tax by Joint Venture Banks and collecting income tax from Joint Venture Banks. Besides, this study will also be useful to the tax planner, bankers, tax authorities and many others like teachers, students and people interested on it.

1.7 Limitations of the Study:

Any research study is limited by the time period, area of the study undertaken and on collected information and data. This study has also some limitations. They are as follows:

1. This study is concentrated on the corporate income tax collection from Joint Venture Banks only, especially six Joint Venture Banks now operated in Nepal.
2. This study has covered past ten years of period (i.e. from fiscal year 2001/02 to fiscal year 2010/11).
3. Primary data have been collected through opinion survey of Bankers and tax experts available in Kathmandu Valley only.
4. Individual income tax and other headings of taxes have excluded in this study. This study has not concentrated on the tax planning, tax avoidance and tax evasion.
5. All the numerical data have been taken from secondary sources.
6. The analytical report will be prepared based on availability of data and information.

1.8 Organization of the Study

The study has been organized into five chapters. **The first chapter** is about introduction. It covers background of the study, statement of the problem, objectives of the study, hypothesis, significance of the study, limitation of the study and organization of the study.

The second chapter covers mainly three parts conceptual framework, Review on related literature and Research gap, Conceptual framework part deals with meaning of tax, types of tax, objectives of tax, meaning of income tax, development of income tax law in Nepal, income tax administration in Nepal, meaning of bank, Kind of bank, development of bank in Nepal, meaning of Joint Venture Bank and Special Provision for Bank in ITA 2058. Similarly, review on related literature part deals with the reviews of different literature, which are closely related to this study.

On third Chapter covers research methodology, the details research methods that are planned for conducting this study. This chapter deals with the Research design, Population and sample, Sampling procedures, Nature and Sources of data, Data collection procedures, Method of data presentation and analysis, Tools and techniques of analysis and respondent's profile.

The fourth Chapter, Analysis and presentation of Data covers structure of Nepalese government revenue, Contribution of tax revenue to the total revenue, structure of income tax in Nepal, Income tax collection from Joint Venture Banks, Contribution of income tax collection from Joint Venture Banks to total income tax collection, Ratio of income tax collection from Joint Venture Banks in total tax revenue and total income tax. Second part of the chapter covers Analysis of Bankers opinion survey, Analysis of tax expert opinion survey and comparative analysis of the opinion survey. Third part covers major findings of the study.

The Final or fifth chapter of the study covers summary, conclusion, necessary recommendations and avenues for further research.

CHAPTER-TWO

Conceptual Framework and Review of Literature

2.1 Conceptual Framework: Introduction of Tax

Taxation is the biggest sources of public revenue of the modern government. In a democratic political setup, taxation is responsible for shaping the political activities of the government. Tax is a kind of money which it is the legal duty of every citizen of a country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. In short, tax is the major source of government income. Many economists are of the view that tax is a compulsory payment to the government by tax payer without any expectation of some specified return. A taxpayer is not entitled to compel the government, while paying a tax, to give something to him in return of the amount he has paid. But taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirect. The sense of the argument is that the tax payer is not entitled to claim any return against the payment of his taxes through modern taxation policy that aims at the fulfillment of the objectives of social welfare.

In the simple words, tax is a compulsory contribution made by taxpayer to the government under the existing law and rule. Because of tax payment taxpayer cannot claim of direct benefit. The government mobilizes these taxes for public interest. However, different economists tried to defined taxation in a different style as stated below:

“A Tax is a contribution from citizens of the support of the state”.(Adams)

“A Tax is a compulsory payment from a person to the government defrays the expenses incurred in the common interests of all without reference to special benefits conferred.” (Seligman)

"A tax is a compulsory payment to government without expectation of direct benefit in return to the taxpayer." (Taylor)

From this mentioned definitions, it is cleared that the taxes are not a voluntary contributions by the tax-payers but it is compulsory in nature. Therefore, one says that every payment by individuals to the state is not a tax. It is just like withdrawal from the people's income which reduces their purchasing power. It should be noted here that tax checks production where as public expenditure may support the productive process. In this context, Dalton say "Where as taxation, taken alone should almost certainly increase it". So, tax is a necessary contribution by the tax payer to social objectives like reducing inequalities in income and wealth securing high level of employment as well as promoting economic stability with growth. (Lekhi, 2000: 162-163)

2.2 Classification of Taxes

Basically, tax can be classified into two broad categories:

- ❖ Direct Tax
- ❖ Indirect Tax

1. Direct Tax

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. Examples of direct taxes are:

- ❖ Income tax
- ❖ Vehicle tax
- ❖ Property tax
- ❖ Interest tax
- ❖ Death tax
- ❖ Expenditure tax
- ❖ Gift tax etc.

Merits

- 1 It is equitable as it is imposed on person as per the property or income.
- 2 Time, procedure and amount of tax to be paid are known with certify.
3. It is elastic. The government can change tax rate with the change in the level of property or income.
4. It enhances the consciousness of the citizens. Tax payers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Demerits

- 1 It gives mental pinch to the taxpayers as they have to curtail their income to pay to government.
2. Taxpayers feel inconvenience as the government imposes tax progressively.
3. Tendency to evade tax may increase to avoid tax burden.
It is expensive for the government to collect tax individually.

2. Indirect Tax

An indirect tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are:

- ❖ VAT
- ❖ Sales tax
- ❖ Excise duty
- ❖ Entertainment tax
- ❖ Hotel tax Excise duty
- ❖ Import and expenditure duty etc.

Merits

1. It is convenient as the taxpayer does not have to pay a lump sum amount for tax.
2. There is mass participation. Each and every person getting goods or services has to pay tax.
3. There is a less chance of tax evasion as the taxpayer pay the tax collected from consumers.
4. The government can check on the consumption of harmful goods by imposing taxes.

Demerits

1. It is uncertain as demand fluctuates, tax will also fluctuate.
2. It is regretful as the tax burden to the rich and the poor is same.
3. It has bad effect on consumption, production and employment. Higher taxes will reduce all of them.
4. Most of the taxes are included in the price of goods or services. As a result, taxpayers do not know how much tax they are paying to the government (Bhattarai, & Koirala, 2065:3-5).

2.3 Objective of Tax

Tax is a permanent instrument for collecting revenues. It is a major source of revenue in the developed world and has been appearing as an important source of revenue in the developing world as well. It has been an instrument of social and economic policy for the government. (Bhattra Koirala, 2065). The main objectives of tax are:

1. Raise More Revenue

The fundamental objective of taxation is to finance government expenditure. The government requires carrying out various development and welfare activities in the country. For this, it needs a huge amount of funds. The government collects funds by imposing taxes. So raising more and more revenues has been important objective of the tax. (Bhattraï & Koirala, 2065: 2)

2. To Reduce Economic Inequalities

The government levies more tax upon high income group and mobilizes it to improve the economic conditions of low -income group. As a result, the economic inequalities will be reduced. (Amatya, 2004: 7)

3. Redistribute Wealth for the common Good

Tax collected by the government is expended of carrying out various welfare activities. In this way, the wealth of the rich is redistributed to the whole community. Tax helps in redistributing wealth in the country. (Bhattraï & Koirala, 2065: 2)

4. To Remove Regional Economic disparity

Regional disparity has been a chronic problem to the developing countries like Nepal. Tax is one of the ways through which regional disparities can be minimized. The government provides tax exemptions or concessions for industries established or activities carried out in backward areas. This will help increase economic activities in those areas and ultimately regional disparity reduces to minimum. (Amatya, 2004: 8)

5. Boost up the Economy

Tax serves as an instrument for promoting economic growth stability and efficiency. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. The

effective tax system can boost up the economy. Similarly, taxes can correct for externalities and other forms of market failure (Such as monopoly). Import taxes may control imports and therefore help the country's international balance of payments and protect industries from overseas competition. (Bhattraï & Koirala, 2065: 3)

6. Reduce Unemployment

The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts of industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through liberal tax policy. (Bhattraï & Koirala, 2065:3)

From the above, we can conclude that the tax has the purposes of raising revenue to have resources mobilization, equal distribution of income and wealth in the society, encouragement in production of certain products, encouragement in employment, saving and investment, removal of regional imbalances and enforcement of government policy.

2.4 Income Tax

Generally, income means the inflow of cash the person. 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 of nation. Higher income denotes the high of people. People generate income from rendering various types of services, selling goods and producing crops for their own use. Thus income may be cash or kind that is received by a person for livelihood.

Economists define the term 'income' in a broad sense. It is an economic gain or receipt to a person during a particular period by way of wages, interest, profits and rent. The money income of the people is used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as below.

$$Y = C+I$$

Where, Y = Income

C = Consumption

S = Saving

But, for the purpose of taxation the definition of income is somehow different from the aforesaid definition. According to income tax act 2031 "Income means the income earned or received in cash or kind from the sources mentioned, they were as: Agriculture, Industry or business of Profession or vacation, Remuneration, House and Land Rent and other sources. (ITA, 2031: 5)

According to Income Tax Act 2058" Income means a person's income from any employment, business or investment and the total of that income calculated in accordance with this act.

A Tax imposed on income base is called income tax or income tax refers to the levied on the income of a person and profits of the corporation for the specific time period particularly one year. In a broad sense, income tax is a levy based upon the production or receipts organ of the tax payers within a definite period of time.

According to Income Tax Act 2058 "Tax means the tax imposed and includes the payments of tax which is deduction at source."

The basic objectives of income tax are twofold revenue collectors and redistribution. In some detail, these objectives can be divided into four parts- primary objective of razing revenue. The economic objective of providing fiscal policy tool to stimulate private investment, reduce unemployment and lower the effects of inflation on the economy the encouragement of certain activities like special tax favor to social institutions, special tax exemption to low income groups in the society (Kandel, 2004 : 12).

Different countries have different concept on income tax. In Great-Britain, the original concept of tax was that of a levy on current income and the tax was applied to five schedules. In U.S.A. a matter of practice, recurrence is not relevant to the tax status. In India, the personal income tax is levied on the net income of all individuals. Singh has defined the term income tax they levy on the net income derived after deducting all allowable deductions. Income tax is levied on the income derived from business, agriculture, remuneration, profession, insurance, investment agencies and other sources derived in cash or kind (Singh, 2001: 160)

Income tax refers to the tax levied on the income of person and profit of corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted. Then tax-free incomes allowances and common expenses are also deducted to get taxable income. After giving the exemption limited as per law, the amount of tax to be levied on this computed income is the income tax.

2.5 Evolution of Taxation

In early days, taxes were not collected regularly but collected at the time of emergencies to finance specially wars and for common services. Taxes were levied on the basis of welfare of the people and they were eager to pay taxes because nonpayment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duties of king were to sense and secure his people and maintain peace and carry out social works. For the performance of these activities, the king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

The Great Britain is the first country in the world in introduces the income tax in 1799. It imposed income tax in order to finance war with France Similarly; in U.S.A. the first federal income tax was imposed in 1862

with the same objective (to finance civil war). Thereafter, since 1913 it was accepted as permanent tax. Thus income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1981, Austria and Canada had followed the income tax in 1915 and 1917 respectively. After First World War, the income tax becomes an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in number old developing nations. (Agrawal 1980: 113).

In our neighbor country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of income tax act 1886 (Dhakal, 2057 B.S: 10).

In this way, income tax has become the regular source of national beginning, income tax were generally levied at a flat rate. The principal of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now days the progressive rate is commonly used rather than flat rate in all over the world.

2.6 Development of Income Tax Laws in Nepal

Although the taxes were collected in various from in ancient era, the history of modern tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951, the then finance Minister in his budget speech declared the intension of the government to levy an income tax.

Attempts were made to introduce income tax in subsequent years, in 1954, an income tax with Rs. 10,000 basic allowance and progressive taxes ranging from 5 to 25 percent was proposed. Due to political instability, it would not be introduced until 1958.

The first elected government in 1959 finally introduced Business profits and salaries Tax Act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years experience of income tax, the government replaced the prevailing tax act the income tax act, 1974 (2031) as enacted. The Act remunerated income sources into five groups (a) Agriculture (b) Industry Trade, profession or occupation (c) Remuneration (d) House and compound Rents (e) other sources. However, agricultural income was kept outside the tax net except few years through the finance Acts.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and inter grade the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 (2058). This Act has replaced Income Tax Act, 1974 (2031), which was amended eight times and existed for a period of 28 years. The Government of Nepal Framed Income Tax Rules, 2059 in 2059 to help clarifying the Act. The development of income tax act Nepal is presented below.

2.6.1 Business Profit and Remuneration Tax Act, 2017 (1960)

The fiscal year 1956/60 (2017 B.S.) was the beginning o the income tax act in Nepal. The first law relating to income tax was named "Business profit and Remuneration Tax" the imposition of the tax was governed by the Business profit and remuneration tax act, 1960. And rule mode there under. This act had 22 sections with the enactment of that act, the salary tax or personal income 6,000 per year. In the first three years, the exemption was Rs. 7000. An examination of tax files in the Kathmandu district office disclosed 557 personal income tax files of individuals whose personal income exceeded Rs. 6,000 per year. In the first three years, the exemption was Rs. 7000. An examination of tax files in the Kathmandu district office disclosed 557 personal income tax files of individuals who had paid taxes in one or more years.

The following were the silent features of the Act.

1. There is two heads income i.e. business profit and remuneration only.
2. The basis of calculating the tax liability for the remuneration was the income of the current year and for business profit, it was the profit of previous year.
3. Deductions of expenses were not specified for calculating taxable income.
4. The tax officer was empowered to assess tax on best judgment estimate.
5. In case of default, fines up to Rs. 5,000 were prescribed.
6. Profits from industries were granted a rebate of 25% and profit from small industries were granted a rebate of 5%.
7. Tax remuneration was to be deducted at source.

This act was too narrow and vague. It has many loop holes for the income hiders and inadequate provisions in the act. Because of this reason Income Tax Act 2019 was introduced.

2.6.2 Income Tax Act 2019 (1962)

This act was the extension of the “Business Profit and Remuneration Tax Act” with 29 sections. It was amended in 1972. It had provision of income tax in agricultural income but this provision was abolished by the Finance Act, 1966(2023). The main features of the act were as follows.

- 1 Income was defined as all kind of income such as profit from business, income from profession, remuneration and occupation, house and land rent, income from agriculture, insurance business, agency and any other sources.

2. The basis of tax assessment was specified on the best judgment estimate of the tax officers.
3. Provision was made for reassessment of tax as well as rectification of arithmetical errors.
4. Provision was made for the installment payment of the tax for the first time in Nepal.
5. It had the provision regarding carry forward of losses for the period of two years.
6. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
7. The residential status of the tax payers for the tax purpose was defined.
8. The act granted the power to constitute the income assessment committee.
9. Deductible expenses as well as methods of calculation of taxable income were specified.

This act had also some weaknesses. The changing socio-economic environment of the nation had forced to change the income tax act. As a result, the Income Tax Act, 1974(2031) was made by abolishing the existing Act 1962.

2.6.3 Income Tax Act 1974 (2031)

The Income Tax Act, 1974 can be said to be the refined form of the Income Tax Act, 1962 (Dhakal, 2057: 11). It had 66 sections. It contained many provisions of the old one and change and added certain new provisions. To implement this Act, government introduced Income Tax Rule 2039. This rule clarified some provisions of this act. This act was amended in eight times for making more practical and eliminating confusing terms. Some specific features of Income Tax Act 2031 were as follows.

1. This act had clarified definition of specific words like : income, tax, tax payer, year of income, firm, company, net income, person, philanthropic work, nonresident etc.
2. Head of income source were specified in five heads: (a) Agriculture (b) Industry, Business, Profession or vacation (C) House and land rent and (e) other sources.
3. The act had made it obligatory for taxpayers to register their industries, business, profession or vacation in the tax office and any changes should be notified.
4. Methods of computing the taxable income from each head has been specified with deductions allowable.
5. Provisions resulting to computing of net income by agreement in special causes
6. Carry forward of loses is allowed within subsequent three years.
7. Provisions relating to deduction for life in source premium and contribution made for philanthropic purposes.
8. Prevision relating to correction in the statement of income.
9. Provision relating to tax collection in the advance.
10. Provision relating to make agreement for avoidance of double taxations.
11. Provision relating to maintenance of accounts, provision relating to rectification.
12. Provision relating to reassessment or additional assessment of tax.
13. Provision relating to departmental action in case of negligence.

14. Provision relating to penalty and appeal.

2.4.6 Income Tax Act 2058 (2002)

In 19 th Chaitra 2059, Income Tax Act 2058 has been introduced in Nepal. This act has been brought in Nepal to avoid the following defects of Income Tax Act, 2031.

- Narrow base of tax.
- Taxing only the income originated in Nepal.
- Dispersion of tax related tax i.e. income tax related provisions were given in different acts.
- Low penalty rate to tax evader.
- Incompatible to self-assessment system, and
- Unsuitable to modern economy.

The main objectives of ITA, 2058 are personated below.

- To bring all the income generating activities into tax net.
- To harmonize tax rates and concessions on equity ground.
- To widen the tax base.
- To confine all the income tax related matters within the fact.
- To make income tax elastic and revenue productive.
- To develop a tax payer friendly-taxation system by making it clear and transparent.
- To reduce the scope of discretionary interpretation of the tax authorities.
- To minimize tax evidence and tax evasion.

- To make taxpayers more responsible by enforcing the self-assessment system.
- To integrate Nepalese tax system with the tax system of foreign countries. (bhatrarai & Koirala, 2065 : 8-9)

The new Income Tax Act has 143 sections. Income Tax Rules 2059 is also implemented under the provision of this act. As stated in objectives, the new act has many new provisions in comparison to Income Tax Act 2031.

Some specific features of Income Tax Act 2058 were as follows.

1. All income tax related matters are confined within the act.
2. It has included all the financial transactions of the taxpayers considering present and future earnings.
3. This act has broadened the tax base unlike previous tax act, tax rates have been spelled out in the act. The tax rates and concessions have been harmonized on equity grounds.
4. The act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
5. The act has first introduced the taxation of capital gains.
6. The act has provided liberal loss set-off and carry forward/ backward provisions. Inter head adjustments of losses have been clearly specified. Such provisions have been made from international perspective.
7. This act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.

8. This act has made provisions for stringent fine and penalty for the defectors. There have been made provisions for punishment in the fines up to Rs. 3, 00,000 and imprisonment on conviction up to 3 years.
9. Global incomes of resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
10. List of expenses is inclusive. All expenses relating to income have been made admissible.
11. The Act has made provision for international taxation; foreign tax credit has been introduced for the first time.
12. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities. (Bhattraï and Koirala, 2065:9)

2.7 Corporate Tax and its Development in Nepal

2.7.1 Concept

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do everything. It can conduct a lawful business and enter into contracts with others in its own name (Junena, 1991: 68). Corporate bodies conduct business and make profits. Tax levied on corporate profit is known as corporate tax. Therefore, corporate tax is a tax levied on companies or corporate bodies in contrast to unincorporated enterprises. The history of this tax was started from 1909 in USA when one percent excise was levied on corporations i.e. companies on the ground of the privilege they enjoy. Since then corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in its initial period, and again started to be down turn since

1980s. (Kandel, 2000: 28). Taxation of corporate profits is so far the most common form of corporate taxation. Almost all countries of the world have adopted this system.

2.7.2 Development of Corporate Tax in Nepal

The history of corporate tax in Nepal was not so far long. This tax was introduced only in 1960 with enactment of this 'Business profit and Remuneration Tax Act, 1960 at the first time. At the initiation, it was not differentiated from personal income tax. All the taxpayer: person, companies and private firms were imposed at the same rate with progressive and exemption limited prescribed by Finance Act 1960. The tax exemption given to companies same as to personal taxpayer was eliminated in the fiscal year 1965/66.

Nepal originally combined corporate income tax with individual income tax. The same rate structure was designed for corporate income and other income for many years. In 1968/87, a flat rate corporate tax was introduced for Government Corporation and public limited corporations listed with the security exchange centre. Corporate tax was extended to private limited companies in 1993/94 and partnership firms in 1995/96. (Khadka, 2001: 5),

The third income tax act was introduced in 1974 with making new and provisions than old one. A separate tax system to companies was introduced by the finance act, 1976. Finance act 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprise. The fiscal year 1986/87 changed the nature of tax rate to the corporate bodies (companies) from progressive tax rate to flat tax rate. In this time the tax rate was 40% flat rate to all listed companies. The same finance act imposed tax and dividend also to be deducted at source at rate of 20%. But the dividend tax system was changed exempting dividend to a level of 85% in 1987/88. Compulsory self-tax assessment system for public and private limited company was enacted from the financial year 1994/95. This

change support to end the discrimination between private company and public company. Another major changes were carried out in the fiscal year 1988/99, was the inclusion of dividend of non industrial companies within the tax net.

After enactment of income tax act 2002, the corporate tax levied upon general industries is 25%, 30% for insurance company and financial institutions. Trading companies are levied tax at the rate of 25%, manufacturing industry at 20% and special industry at 20%. Income Tax Act, 2058 has recommend, export profit from industry sector and trading sector are taxed at 20% and 25% respectively.

2.7.3 Corporate Tax Base in Nepal

There are controversies as regards to the choosing of corporate tax base since there may be various bases of taxation for instance, these bases may be income, cash flow, turnover, total assets and added value etc. Among these two-bases-income and cash flow are mostly considered by the tax expert (Kandel, 2003)

The standard tax base is corporate income, which is the different between the revenues from the sale of goods and services plus financial income on the one hand and wages, depreciation, inventory costs plus interest on the other. Such costs are broadly revenue expenses incurred in the ordinary course of conducting day to day operation, and amortization of capital costs. Under the income based tax system, many developing countries provide substantial tax incentives in the form of exemptions and deductions such as accelerated depreciation, investment tax credits tax or allowances, tax holdings etc.

It is called income based on net profit basis when income is taken as the base of taxation, under the basis of computation rule of tax is adding up al the taxable incomes and deducting expenses incurred in earning the revenue or allowed expenses by income tax act. This is also known as profit-based tax. However, due to some difficulties in findings out taxable income under this

basis the economists and tax experts are in favor of replacing it with alternative of the cash flow base. It denotes taxing of net cash flow received from business activities without discriminating the income or capital.

Nepal has been using the income as a base of taxation from the beginning of formal tax act 1960. Under the income as a base of taxation from the beginning of formal tax act 1960. Under the two heads of income viz. profits and gains of business net income and 'other sources' of income. The word profit means net income i.e. total revenue less total cost. (Poudyal 1997:25)

2.8 Tax Incentives

Tax incentives are concessions facilities and rebates granted to corporate bodies. These incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or a variety of taxes and special allowances for a certain period to motivation the new as well as existing organizations for balanced regional development, production of primary goods and to development the corporate bodies. it increases the habit of saving and encourages the investment by means of equity shares purchasing of an organization. Thus tax incentives are phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

The increase of corporate investment is the sign of economic development of the nation. Developing countries like Nepal have to encourage to invest in corporations and investors are interested to invest only in such a case when the after tax profitability become high. The desire of investors is partially fulfilled by the tax incentives even though the government revenue becomes less in the same time.

The most popular tax incentives provided to various types of activities in different countries of the world are tax holiday, investment allowance or

tax credit, accelerated depreciation rate, tax rate reduction and carry forward of losses.

2.8.1 Tax Incentives in Nepal

Nepal had experienced four industrial enterprises acts brought to make incentive to the investment in the corporate sector. They are industrial enterprise act. 1967, 1974, 1981 and 1962. The first industrial enterprise act and granted 10 years tax holding for a new industries tax rebate up to 25% of tax liability. Similarly, Industrial Enterprise Act, 1974 provided investment allowance, depreciation facility to extension and modernization and up to 18 years tax holding to different industries established in different parts of the country. Accordingly Industrial Enterprise Act, 1981 had made tax relief provisions including up to 12 years tax holding, income tax rebate up to 50% for exports, 15% investment allowance to additional investment and only 1% levy for important of machinery, spare parts and raw materials.

The tax holding is granted to newly established industries considered considering such as level of capital investment, number of people employed nature of the product and the use of local raw material under sec. 15 of the Industrial Enterprise Act, 1992. The rate of tax holding period is 5 to 14 years depending on previously mentioned criteria.

Besides these, the industrial Enterprise Act 1992 has provided a number of facilities and concessions to the industries. Income Tax Act, 2058 has also provided various types of tax incentives to the corporate sectors. Some important tax incentives which are provided now to the Nepalese corporate sectors according to Industrial Enterprises Act, Income Tax Act and other acts and rules are area follows.

- 1 No income tax will be imposed on the earnings derived from agriculture expect registered agriculture firms.

- 2 Income divided from such industries which are registered under co-operative act 2048 B.S. is completely tax exempted. In addition, dividend received from such industries is tax free.
- 3 A natural person or an entity operating special industry during the whole income year is taxed as under.
 - a. If the industry is providing direct employment to 600 or more Nepalese citizens throughout the whole year, 90% of the applicable tax rate is applied for the year.
 - b. The industry operating in remote, undeveloped and underdeveloped area will have to pay 70%, 75% and 80% of the applicable tax rate respectively up to ten income years commencing from and including the year in which the operation commences.

For tax purposes, special industry means a manufacturing industry the year in which the operation commences.

4. Income of an industry established in SEZ located at mountainous district and GON specified hilly districts is exempted from tax for the first ten years of its operation and then after taxed at 50% of tax rate otherwise applicable.
5. Income of an industry established in SEZ other than specified above is exempt from tax for the first five years of its operation and then after taxed at 50% of tax rate otherwise applicable.
6. An industry established in remote area is exempt from tax of the first ten years of its operation.
7. An income of IT oriented industry established in GON specified IT Park is subject to an exemption of 25% of tax rate otherwise applicable.
8. Actual pollution control cost or 50% of adjusted taxable income from all businesses conducted by a person whichever is lower is allowed for deduction as pollution control cost expenses.

9. Actual Research and Development cost or 50% of adjusted taxable income from all business whichever is lower is allowed for deduction as Rand D expenses.
10. Entity engaged in building public infrastructure to transfer to the government of Nepal and any other entity engaged in power generation transmission or distribute of electricity, entity wholly engaged in operating special industry, entity wholly engaged in operating road, bridge, tunnel, ropeway or flying bridge constructed by the entity, entity wholly engaged in operating trolley bus or trams and entity that earned income from export in an income year are allowed an additional depreciation of 1/3 rd of rate prescribed on the assets falling under Blocks A,B,C, and D.
11. Donation made to an exempt organization, approved by IRD is allowed for reductions from taxable income. Reductions allowed to an individual or an entity will not exceed Rs.1, 00,000 or 5% adjusted taxable income.
12. Business or investment loss can be carried forward up to next 7 ears. Loss of BOTI, BOOT can be carried forward to next 12 years. Loss of an entity conducting petroleum business can be carried forward up to next 12 years.
13. Entity wholly operating as special industry, the entity that has operated any road, bridge, tunnel, ropeway, flying bridge, entity, that has operated trolley bus or tram, entity wholly engaged in the projects to build public infrastructure, own, operate and transfer is to government or entity engaged in power generation, transmission and distribution is taxed at the rate of 20 percent instead of general taxed rate 25%.

2.9 Income Tax Administration in Nepal

Only tax policies and programs are not successful devices for achieving ultimate goals of an organization. For the achievement of targeted goals, the policy and plans must be implanted in efficient and effective manner. Tax

administration is an important subsystem of taxation system. This is needed for successful implementation of tax policies and laws. Policy making is relatively easy but more difficult to administer. Policies are formulated by top level of tax offices implement it.

The success and failure of any tax policy depend upon the efficiency and effectiveness of the tax administration. The main objective of tax administration should be the efficient assessment, collection and enforcement of taxes legally due without undue cost and harassment to the government or taxpayers in terms of money, time inconvenience and mental worry.

Income tax administration directly by the Inland Revenue department, ministry of finance and other administrations such as customer's administration, revenue investigation administration and revenue administration and trainings centers are also involved in the income tax administration. The revenue division of this ministry of finance is responsible for formulation tax policy and setting up appropriate administration to implement tax policy. Customs administration helps investigate the revenue leakage made by officers and taxpayers for their mutual benefits. And revenue administration training center performs training, workshops and seminars for the tax officials.

Tax administration has become challenging and more complicated with the changing environment of international tax system. Inland Revenue Department has taken the responsibility of administration of income tax. Tax administration was set up as the Tax Directorate in 1959 for the first time. The Inland Revenue Department was established in 1961/62 and the Department of Taxation was set up in 1963/64. Tax officers were recruited under this department of Taxation was set up in 1963/64. Tax officers were recruited under this department for the collection of tax revenue. In 1964 there were tax offices in six places i.e. Kathmandu, Birgunj, Biratnagar, Nepalgunj, Bhirawa and Janakpur. In Kathmandu there were two offices known as eastern office

and western offices. The number of tax offices increased gradually. These offices were classified as zone offices and branch offices until 1977/78. In 1978/79, zone and branch offices were converted into offices (Khadka, 2004: 100).

Parliament is a tax administration body but it is no taxes levied and collected except in accordance with law. The government can only impose any tax with sufficient legal support. Legal support is necessary to impose any tax too. Different types of acts and supported laws are provided by parliament in the democratic countries even though the parliament is not directly associated with day to day operation of income tax management. Thus, the parliament is the first and most important component of the income tax management in Nepal.

The highest organization of total taxation management body of the country is the ministry of finance of Nepal. It concerns with the total revenue and expenditure of the government, manages to borrow internal as well as external (foreign) debts as demanded by budget. It is thus treasury of the government. It also concerns with planning and formulation various mean level economic policies of the government for mobilizing resources in the country. It also delegates powers to them for performing daily works related to income tax and other revenue collection.

The most important component of the tax administration in Nepal is Inland Revenue Department. Its functions are to fulfill the objectives goals set by ministry of finance (MOF). It lunches various programmers, plans and policies related with the implementation of income tax as well as other tax management. It looks over not only income tax but also various taxes; direct and indirect taxes and all other non-tax revenue. Although it is the organization of taxation it is not directly associated with assessment and collection of taxes and other tax as well as non-tax revenue. It also organizes the structure of taxation, manages personnel, improves the systems and controls the systems

defectives and personnel as well. It constitutes law, policy, appeal, audit, investigation and review tax exemption and static section. This department is situated at Lazimpat, Kathmandu.

The lowest unit and fourth component of tax administration of Nepal is Inland Revenue Offices. There are twenty-one Inland Revenue offices in the country performing various jobs under the Inland Revenues Department. These offices are really and directly performing implementation of income tax and other tax policies and programs. They maintain public relations, collect information, identify taxpayers, and assess the taxpayers' income and income tax. Due to public relation, they provide feedback to the upper levels (IRD and MOF) for the correction of policies and programmed. This is also important part of the tax management, which is directly, involves the ultimate function of while taxation system. (Mallik, 2003:404)

Inland Revenue Department was established at first in Baisakh, 2058 (Mid April, 2000) merging Tax Department and Value Added Tax Department. 40 Tax offices under tax department and 17 offices under value added tax department were also merged. Now there are 21 Inland Revenue offices all over the kingdom. Out of 21 Inland Revenue offices 4 are handled by gazette first class officers and rest by gazette second class officers.

2.10 Meaning of Bank:

It is very difficult to give a precise definition of a bank, because a modern bank performs numbers of functions. However, generally we can say an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transaction is called bank.

"A commercial Bank is one which exchange money, deposits money, accepts deposit grants loans and performs commercial banking functions and which is not a bank meant for cooperative agriculture industry or for specific purpose".(Commercial Bank Act, 2031)

"A Bank is business Organization that receives and holds deposits of fund from others, makes loans or extends credit and transfer fund by written order of depositors". (American Encyclopedia)

According to the above definitions, we can say A commercial Bank is a business profit seeking organization So the main objective of the bank is profit maximization. Bank earns profit from the investment of the available resources and service provide.

2.11 Kinds of Bank:

Without making economic revolution, people's living standard cannot go up. Banks are the leaders of economic revolution. Bank differs according to their nature. A bank cannot perform all sorts of functions. So, today's banks are opened differently according to their nature, they are briefly explained in the paragraphs it follows:

1. Central Banks:

Central Banks is the supreme bank of a country. It is a bank of the bank or bank of the government. In the case of Nepal, Nepal Rastra Bank is the central bank which was established in 2013 (1957) under the Nepal Rastra Bank Act 2012 (1956). It can accept the credit of Nepal government, commercial banks, the financial institutions, government's offices and provides loan to the Nepal Government, commercial banks and financial institutions when needed. It keeps monetary system stable, develops banking system, monitor and supervise bank and financial institutions, issues coin and notes and controls the credit of money.

2. Commercial Banks:

Simply, banks mean the commercial bank. These banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people

and the country. In Nepal there are many commercial banks are established. Some are Joint Venture Banks.

3. Agriculture Development Bank:

Especially agricultural development banks are established with the objective of development agricultural sector. In case of Nepal, the Agricultural Development Bank was established in 2024(1969) under the Agricultural Development Act 2024 (1968). It is formed for the purpose of improving people's economic welfare and the facilities with dynamic changes and to provide capital and loan to the agriculture sector.

4. Industrial Development Bank:

A bank, which provides loans on the basis of mid term and long term to establish industries and their expansion, is called an industrial bank. In other words, a bank which is opened to support the industrial field of country and its all round development and expansion is an industrial bank. Certainly, in the absence of this bank, industrial activity is block. AS a first industrial development bank, Nepal Industrials Development Corporation was established in 2016 under the Nepal Industrial Development Corporation Act 2016.

5. Rural Development Bank:

A Rural Development Bank is established with the objectives of uplifting the living standard of the people of rural areas by encouraging them to start the possible income generation occupation, by providing loan without security and providing necessary training and bank servicing. The five rural development banks are opened in Nepal.

6. Exchange Bank:

It exchanges different foreign and indigenous currencies and transfer the fund to the foreign countries. So it is called the exchange bank, when expert and import is made in the course of international trade, this bank provides

financial assistance. It buys and sells the foreign exchange bills. It provides facility to send money to the foreign lands. No exchange bank separately is opened in Nepal. The functions of this bank are done by the Nepal Rastra Bank and the commercial banks.

2.12 Development of Banks in Nepal:

Like other countries goldsmiths, merchants and money lenders were the ancient bankers of Nepal. Tejarath Adda established during the period of Prime Minister Ranodip Singh (1933B.S.). It was the first step towards the institutional development of banking in Nepal Tejarath Adda did not collect deposit from the public but gave bans to employers and public.

Banking in modern sense started with the inception of Nepal Bank limited in 1994. Nepal Bank Limited has a huge responsibility of attracting people towards banking sector from pre-dominant money lenders net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers.

Government, however, had only of stretching banking services to the nook or corner of the country and also managing financial system in a proper way. Thus Nepal Rastra Bank (NRB) was set upon B.S. 2013 as a central bank under Nepal Rastra Bank Act 2012 B.S. Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector. The major challenge before NRB today is to ensure the well health of financial institutions. Accordingly, NRB has been trying to change themselves and it is really requires to strengthen their policy making, supervision and inspection mechanism.

Integrated and speedily development of the country is possible only when competitive banking service are available keeping this in mind

government set up Rastriya Banijya Bank(R.B.B) in 2022 B.S. as a full government owned commercial bank.

Industrial Development Center (IDC) was set up in 2013 for industrial development. IN 2016, IDC was converted to Nepal Industrial Development Bank (ADB) was established in 2024 to provide finance for agriculture products productivity could be enhance by introducing modern agriculture techniques. Moreover, security exchange center was established in 1976 to enhance capital market Exchange (NEPSE) in 1993. NEPSE opened its trading floor on 13 January 1994.

With the establishment of RBB and ADB, banking service spread to both the urban and rural areas. NRB also give incentive to NBL to expand their branches to rural areas. This helped the common people to reduce their burden of paying higher rate of interest to money lenders. It is natural expectations of customers to keep on increasing. Once they got banking services, they were expecting improvement and efficiency. However, excess political interference and absence of modern managerial concept in these institutions was hurdle in this regard. The incorporated Nepal Arab bank Limited (renamed as NABIL Bank Limited Since 1st January 2002) in B.S. 2041 (1984) as a first Joint Venture Bank NABIL Bank gave a new ray of the Nepalese financial sector.

Following 32 commercial banks which are operated in Nepal are as follows.

1. Nepal Bank Limited.
2. Rastriya Banijya Bank Limited.
3. Agriculture Development Bank Limited.
4. NABIL Bank Limited.
5. Nepal Investment Bank Limited.
6. Standard Chartered Bank Limited.

7. Himalayan Bank Limited.
8. Nepal SBI Bank Limited.
9. Nepal Bangladesh Bank Limited.
10. Everest Bank Limited.
11. Bank of Kathmandu Limited.
12. Nepal Credit and Commerce Bank Limited. (NCC)
13. Nepal Industrial and Commercial Bank Limited. (NIC)
14. Lumbini Bank Limited.
15. Machhapuchhre Bank Limited.
16. Kumari Bank Limited.
17. Laxmi Bank Limited.
18. Siddhartha Bank Limited.
19. Global IME Bank Limited.
20. Citizen Bank International Limited.
21. Prime Commercial Bank Limited.
22. Bank of Asia Nepal Limited.
23. Sunrise Bank Limited.
24. Grand Bank Nepal Limited.
25. NMB Bank Limited.
26. Kist Bank Limited.

27. Janata Bank Limited.
28. Mega Bank Limited.
29. Commerce and Trust Bank Limited.
30. Civil Bank Limited.
31. Century Commercial Bank Limited.
32. Sanima Bank Limited.

Because of the higher return of investment and lower capital requirement, entrepreneurs were interested in setting up new banks including branches of foreign banks. However, present political and economic scenario and norms of NRB create some threat to establishment banks.

It is cleared that growth of banks in Nepal is satisfactory. Certainly it is not enough satisfaction in comparison to other countries. First of all, the banks are not enough. Secondly, all the banks are concerned in Kathmandu and other main cities only. Thirdly, the competition is not found in banking functions. Fourthly modern and Joint Venture Banks are not established and opened their branches in rural area. Hence the rural people are not getting sufficient and good banking services. Let us hope the village and backward people will also get enough and good facility of the banks in future with the increasing number of branches of commercial banks.

2.13 Meaning of Joint Venture Banks: (JVBs)

Nepalese Commercial Banks can be classified into two categories like domestic commercial bank and commercial bank with foreign collaboration. This study is confined to commercial bank with foreign collaboration, which is known as Joint Ventures Banks. Joint Venture refers to the involvement of two or more persons or parties for specific purpose. Joint Venture is a single business deals which two or more persons or group with the profit

maximization objective jointly undertake. According to article published in the Journal GATT, "Joint Venture means Joining of force between two or more enterprise for the purpose of carrying out a specific purpose".

Hence, bank operating in the form of Joint Venture is known as Joint Venture Bank. It is mode of trading through the participation of various persons, group in situation vein nation's promising to share profit or loss in proportion of their investment.

In common parlance, JVBs in Nepal refer to foreign Joint Venture Bank in which foreign parent bank purchase certain percent of share, apply it's international management and network which one takes about JVBs, there must be at least two parties and concept of complementary and synergy.

In Nepal Joint Venture Banks are registered under the company Acts and carryout operation accordingly to the Commercial Bank Act. 2031.

2.14 Special Provision from Bank in Income Tax Act 2058

Income Tax Act 2058 has made special provisions for banking business in section, 59 which are as follows;

1. Banking business means a bank that is approved to carry out banking transactions and the banking transactions carried out by financial institutions as per the prevailing laws for banks of financial institutions.
2. Any provisions debited in the profit and loss account is not deductible according to the Income Tax Act 2058. However, the Financial Ordinance 2059 has amended it and provision has been made to claim for deduction of risk bearing fund up to 5% of outstanding loans. In this case bad debt is inadmissible.
3. Loss of any year from banking business can be carried back to the past five year for deduction of it from income of these years.

4. Loss of any year from banking business can not be carried back if risk bearing fund up to 5% of outstanding loan is maintain.
5. Loss of any year can be carry forward up to next seven years.
6. As per direction by NRB to the banking, no interest can be treated as income on the accurate basis. Interest suspense account should be opened if the interest earn but not received in cash within one month. This type of income is given tax exemption by the income tax Act, 2031 and it is continued by this Act issuing the finance ordinance 2059.
7. The taxable income of a bank, financial institution and general insurance company, for an income year is taxed at the rate of 30%.
8. Banks can be maintaining its assets or liability in foreign currency. If exchange rate is change, Bank should be change assets and liability accordingly to prevailing exchange rate or average exchange rate. Average rate is calculated by purchasing and sales rate.

2.15 Brief Review of Some Studies in Taxation

Review of Literature is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered. (Wolf and Pant, P:39)

In the course of the study, various books, dissertations and other reference materials were reviewed.

Reviews of some studies in taxation are presented in brief below:

In 1967, Govind Lal Shrestha presented the master dissertation entitled "**Income Tax in Nepal**". This research work was the first study on the income tax in Nepal, which was submitted to Tribhuvan University in 1967. In the research work, he analyzed some aspects of current income tax such as reliability for tax rate, income rate administration structure of revenue from income tax, net income or taxable income calculation procedure, condition of income tax relate, Appeal procedure and loss set off techniques. Mainly his research was concerned in business profit and remuneration tax act 2017 (1960). He found that real expenses is allowed to deduct in case of assessment of income (especially in remuneration income), tax in agriculture income was harmful to economic development, current income tax rate was very low (Shrestha, 1967).

Govind Ram Agrawal, Narendra Lal Kayastha, Bal Prasad Rai and Arun Kumar Lal Das presented the research report entitled "**Resource Mobilization for Development, The reform of income tax in Nepal**" which was published by CEDA Kathmandu in 1978. In the research work they analyzed various aspects of income tax system of Nepal such as role of income tax, legal aspect of income tax and administrative aspect taxation in Nepal. AS per their study, the main causes of administrative problems were under delay in tax assessment, failure to locate new taxpayers, failure to maintain proper records by the tax offices etc. He also showed the main reasons of assessment delays in Nepal, as delay in settlement of appeal, defective assessment procedure, failure to maintain the proper accounts and records by taxpayer/tax offices. He showed about 2.18 buoyancies and 2.01 elasticity of income tax (Agrawal, 1978).

Govind Ram Agrawal presented the research report entitled "**Direct tax reforms in Nepal**" in June, 1984. This was presented to Ministry of Finance. In the research work, he analyzed some aspect of direct tax, elasticity of direct tax, etc. He found that the major problem of income tax in Nepal was that officers did not like to make of income tax in Nepal was that officers did not like to make assessment on the basis of accounts whereas taxpayers did not like

to produce accounts for income tax purposes. Capital gains should be included in income for the purposes of income tax. This will not only generate additional revenue but will also discourage speculative and unproductive investment. He suggested that political and undesirable pressures in tax administration should be minimized, Effective taxpayer information system should be developed, Allowed to deduction educational expenses for two children etc. (Agrawal, 1984).

In 1995, Shiva Narayan Shahu presented a dissertation entitled "**Contribution of Income Tax in National Revenue of Nepal**" in 1995. He tried to show the number of income tax payers, contribution of income tax in government revenue. He tried to find out the trend of income tax, rate and per capita burden of income tax in Nepal, income tax as percent of GDP and structure of income tax in Nepal. He found that 80% of tax payer pay nominal tax and the upper income groups pay more tax, income tax contribution in total revenue has been increased almost every year, contribution of income tax in total revenue 12.28 in Fiscal year 1994/95 total revenue, total tax revenue and non tax revenue all are increasing day by day. Jumping in the budgetary deficit is the result of the increased in the total government expenditure at the rate higher than that of the total revenue. Income tax from public enterprise is 21.82% semi public enterprise is 5.8% private corporate bodies is 13.45% individual section is 55.27% and salary is 3.64% of total income tax in Fiscal year 1994/95. Per Capita burden of income tax has been ranged between Rs. 3.78 to Rs. 139.73 million.

He has suggested to simplifying the language in income tax act as well as the terms used in the act must be clearly defined. The tax evaders and avoiders must be punished heavily so that it can not repeat . The increment in national income has a positive effect on the taxable capacity of the taxpayers. Therefore efforts should be made to increase GDP (Shahu, 1995).

In 2000, Puspa Raj Kandel presented a Ph.D. Dissertation entitled "**Corporate Tax system and Investment Behaviours in Nepal**" in 2000. He tried to evaluate the present corporate tax system, sensitivity of certain policy issues like inflation, capital gain tax, dividend tax etc. On the basis of their impact on corporate tax burden. He also evaluates the tax incentive system. He found that the effective Nepalese corporate tax rate is increasing whenever the corporate body moves from debt financing to equity financing. The investment allowance helps in making effective tax burden negative. Historical system of accounting and the lack of the provision of carrying forward of undepreciated amount of cost with interest, the corporate enterprises are not able to recover the preliminary expenses fully in terms of present value even if the tax law has the provision of writing off it within five years. Proper consideration should be given by tax authorities before imposing the dividend and capital gain tax on industrial sector in Nepal. (Kandel, 2000).

In 2002, Mr Bharat Kumar Lamsal presented a master thesis report entitled "**A study on contribution of Income Tax on Government Revenue**". He tried to explain in brief about the structure of government revenue in Nepal, contribution of tax and non-tax revenue, Role of income tax in the economic development of Nepal structure of income tax rate in Nepal, Income tax assessment procedure and contribution of income tax on GDP etc. In his study, he found that problem of income tax assessment was less consciousness of tax payer, fines and penalties was a most effective tools to increased the taxpaying habit, the share of income tax as a percentage of total tax revenue was increasing from 9.67% to 81.87%, income tax and the personal income tax's share are increasing every year (Lamsal, 2002).

In 2003, Rabindra Shakya presented a dissertation entitled "**A study on Income Tax Collection from Commercial Banks**" in 2003. He tried to evaluate the contribution of income tax paid by commercial banks in the government revenue, contribution of income tax paid by commercial banks on total income tax and total tax revenue of the government. He also tried to point

out main income tax related problems faced by commercial banks. He found that the assessment made under self-assessment system was not fully accepted by tax officers. They assess the returns again and take long time in completing assessment. It is also seen that most of the commercial bank have disputed the claims of additional tax raised by the tax authorities and have disputed the claims of additional tax raised by the authorities and have challenged the said orders by filling appeals with the revenue Tribunal. Negative attitude and unfriendly behavior of tax authorities to the taxpayers are also the problems to the bankers.

He recommended that the government has show the flexibility in making various laws relating to trade, industries and banking to make incentives in order to form new corporations make the same corporate tax rate for sectors banking and general corporate, either 30% or 25% from the view point of maximizing income tax realization 30% corporate tax is appropriate at present. Tax personnel are responsible for implementation the policies formulated by ministry of finance and Inland Revenue Department to get the setting goals. Tax personnel also should improve their behavior towards the tax payers. (Shakya,2003).

In 2003, Dan Bhadur Palli magar presented a dissertation entitled **"Income Tax in Nepal: A Study of Exemptions and Deductions."** He tried to analyze the exemption of incomes which are provided by the income tax act, the deduction of expenses which are provided by the Income tax act, contribution of income tax in public revenue of Nepal and he also tried to study the provisions of exemption limit provided to individual and family.

He found that the contribution of tax revenue shows the decreasing trend as it had contributed 81/73% in 2001/02. The tax/GDP ratio of Nepal is not found satisfactory. It has never exceeded 14% within the income tax there is the dominant role of corporate income tax but it is in decreasing trend which was 65.29% of income tax revenue in 1996/97 but decreased to 49/01% of

income tax rate revenue in 2001/02. Provisions made under the Nepalese income tax act are not sufficient in all respect improvements are needed in language, laws tax administration exemption limit etc.

He recommended that to present tax base must be widened, increase the present level of income tax exemption 10% of tax rebate should be provide to the taxpayers who submit true income statement within the specified period of time, working environment of the tax office should be improved. (Magar, 2003).

In 2003, Mr. bidhyadhar Malik has written a book entitled "**Nepal Ko Adhunit Kar Parnali**". He has explained the various difficult language of the ITA 2058 in smile language with suitable examples. The main objective of this book to make clear about the previsions of the new act to the taxpayers. This book is some how analytical in nature with the descriptions of the legal provisions of the in come tax act 2058. he has clarified how the new income tax act has broadened its tax base and more amounts of incomes are brought into tax net. (Malik, 2003).

In 2003, Mr. Ishwor Bhattraai and Mr. Ginja Prasad Koirala have written book entitled "**Tax Laws and Low Planning.**" This book is also designed in conformity to the M.B.S. level students of T.U. In this same year another book entitled, "**Taxation in Nepal**" has been published by the same writes and this book has also converted the syllabus of B.B.S. level. Both of the books are of descriptive in nature and presented various examples to divine the taxable income and tax liability from the various sources. In the first book, some examples regarding how the tax can be planned under ITA 2058 has been presented (Bhattraai, 2003).

In 2003, Dr. Pushpa Raj Kandel has written a book entitled, "**Tax Laws and Tax Planning.**" This book's main objective is to meet in conformity with the M.B.S. level syllabus of T.U. He has presented the nominal examples to divine the taxable income and tax liability from the various examples to define

the taxable income and tax liability from the various sources. In the first book, some examples regarding how the tax can be planned under ITA 2058 has been presented. (Bhattraï, 2003)

In 2004 Mr. Keshave Raj Gautam has a dissertation entitled, "**Contribution of income tax to national revenue of Nepal.**" he has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. He has not studied the industrial aspect of the income tax.

His suggestions are that the objective of taxation should be growth, redistrict registration and stabilization of economy. So the income tax policy should be properly formulated on the basis of critical analysis of existing situation (Gatuam, 2004).

In 2004, Mr. Dharma Raj Shakya has presented a dissertation entitled "**A study on Income Tax Tact 2002.**" he has studied the income tax act as a whole however; he has not studied tax incentives and facilities to industry. His major findings are that the income tax is the suitable means of government revenue and its contribution is in third place, for economic development and it should have been mobilized Income tax has composed by six types of taxes and the share of individuals is half of the total income tax revenue.

He has suggested to effective implementation of income tax act, to give tax education, to compulsion the auditing, to playing the loop holes existed in the tax act, to provide incentives of the tax administrators, to allow the pollution control cost wholly etc. (Shakya, 2004).

In 2004, Mr. Girija Prasad Koirala has presented a dissertation entitled, "**Control of Employment Income to Revenue of Nepal.**" He has studied the contribution of the remuneration income in various revenue of Nepal. both the

primary and secondary data have been used in his study and found that the contribution of employment sector is average of 0.90% , 1.15%, 4.93% and 6.28% in the total revenues, tax revenue, direct tax revenue and income tax revenue respectively in the 15 years periods (from fiscal years 1987/88 to 2001/02) of his study. According to him, the contribution is satisfactory.

He has recommended increasing the direct tax revenue so as to direct the economy in the channel of development. His suggestions are that to mobilize the resources through direct tax. He has further recommended to increase the exemption level of couple and to adjust with inflationary level of the economy. According to him, the revenue collection made internally is only sufficient to the daily administration expenses and not enough available to development activities. That is why, Nepal is dependent upon the foreign loans and grants. He has pointed out that the TDS system is very much effective (Koirala, 2004).

In 2004, Mr. Durga Prasad Ghimire has presented a dissertation entitled, **"Income Tax in Nepal: its structure and Contribution from Public Enterprises to Government revenue"**. He tried to analyze the structure of income tax in Nepal, contribution of income tax from public enterprises to government revenue examine the administrative aspects of income tax in Nepal. He also tried to examine the problems of revenue collection from income tax. He found that contribution of tax revenue is about 78% and that of non tax revenue was about 22% in 2001/02. The direct tax/GDP, direct tax/total tax revenue ratio was 1.32%, 15.70%, 18.38% in 1982/83 and each were 2.62%, 21.02% and 26.94% respectively in 2001/02. The income tax from PES/GDP, income tax from DES/total revenue, income tax from PES/tax revenue, income tax from DEs/direct tax revenue were 0.44%, 3.51%, 4.5% and 16.7% respectively in 2001/02. Income tax administration of Nepal is not efficient, lack of trained and competent employee and complicated tax laws. He suggests that the income tax policy should be made such that the main objectives of imposing income tax can be order to develop the taxpayers,

positive attitude towards taxation, enforce tax and plug loopholes etc. (Ghimire, 2004).

In 2004 Suresh Kafle presented a dissertation entitled "**Income Tax Contribution from Nepalese Public enterprises with Reference to Nepal Electricity Authority**" in 2004. He tried to examine the effectiveness of income tax system and he also tried to find out the contribution of income tax from Nepal electricity authority to total revenue and total income tax revenue of national revenue of Nepal. He found that income tax increasing every year. The contribution of income tax to total tax revenue was 8.36% in the fiscal year 1991/92 and it increased up to 22.64% in fiscal years 2001/02. Income tax revenue/GDP rati, income tax revenue/ total tax revenue and income tax revenue/ Direct tax revenue ratio is 2/2%, 22.64% and 84.02% respectively in the fiscal year 2001/02. The contribution of income tax from Nepal electricity authority to total income tax revenue has also been fluctuation in average contribution is 2.57%. In the composition of income tax from Nepal electricity authority on the income tax from Nepal electricity authority on the income tax from public enterprises has shared 8.5% in an average. Lack of clear, transparent and progressive economic policy is the main reason of unsatisfactory with sound and effectiveness of income tax system of Nepal. (Kafle, 2004).

In 2005, Mr. Rishi Ram Neupane presented dissertation entitled, "**Income Tax as an internal source of Resource Mobilization in Nepal.**" His research says that contribution of tax revenue is about 78% and non tax revenue is 28% present in total revenue structure in Nepal during last 15 years. Direct tax has not be contributing to total tax revenue to the extent unit would have to do. The share of income tax in the total tax has been fond 77.78%, land revenue and registration fees, miscellaneous taxes occupy 16.43% and 4.49% of total direct tax respectively. He suggests individuals, public enterprises, corporate bodies and salaried persons have been significantly contributions above 88%. of total income tax revenue. (Neupane, 2005).

In 2005, Mr. Tanka Nidi Dahal has presented a dissertation entitled, **"Income Tax Management in Nepal."** His conclusion is that the realization of sincere and support official induce and tax payers' effect should remain always in higher priority in the tax administration. For the success of income tax system, tax management needs to be reconvened towards effective implementation of new act. He suggests tax policy needs a clear cut and longer vision.(Dahal,2005)

In 2005, Ramu Lamsal presented a dissertation entitled **"Contribution of Joint Venture Banks in Income Tax Collection in Nepal"**. He tried to evaluate the contribution of income tax paid by joint venture Banks in government revenue, contribution if income tax paid by joint venture bank on total income tax revenue\ of the government . He also tried to point out main income tax related problems faced by Joint venture banks. He tried to evaluate of income tax paid by Joint venture banks in income tax revenue of the government of Nepal depending the data relating to 1998/99 to 2003/04. He also tried to examine the impact of special facilities and benefited provided to banks by ITA 2058. This research is based on primary and secondary data. Primary data is collected from opinion survey by 35 bankers and 35 tax experts.

According to his research findings tax revenue contributed more than 75.74% in the total revenue. Income tax payment by joint venture banks is fluctuating. In the beginning fiscal year 1999/00, Rs. 636. 15 million taxes were collected from JVBS and in fiscal year 2003/04, Rs. 888.64 million was collected. In the whole study period standard chartered Bank Ltd was in the first position. NABIL and Himalyan Bank Ltd were second and third position respectively under the view of tax payment. In fiscal year 1999/00, income tax collection from Joint venture Banks is 1.48% of total government revenue and 1.91% of total tax revenue. The contribution percentage and amount of JVBS both have been fluctuating. In fiscal year 2003.04, income tax collection from JVBS is 1.42% of total government revenue and 1.84% of total tax revenue. In

fiscal year 1999/00, income tax collection from JVBs is 8.75% of income tax revenue. In fiscal year 2003/04 income tax collection from JVBs is Rs. 888.64 million which is 9.5% of income tax revenue.

He suggested that to increase the contribution of JVBs, the focus should be given in the various tax incentive programs with the help of sound tax planning. Income tax rules and regulation should be clear and simple for all taxpayers as well as tax administration etc. (Lamsal, 2005)

2.15 Research Gap

Various dissertations reports and books are reviewed during the preparation of this dissertation. It is known that most of the literature is concentrated mostly on the legal and assessment procedure of income tax, administrative aspects legal and historical aspect of income taxations. In addition high level of tax evasion in effective tax administration, low rate of contribution of income tax in revenue collection was already studied. They are limited number of research studies carried out specifying tax payer group and there are no more than one research studies concentration on the contribution of joint venture Bank in income tax collection and special provision of bank, maintain by income tax act. To fulfill this research gap, this study has concentrated on analysis of income tax collection from Joint Venture Bank, special provision of banks in income tax act 2058 and problems facing in tax paying by them. Most of the studies are related with only 5-7 years data but this study is related with only 10 fiscal years data from fiscal year 2001/02 to fiscal year 2010/11. This study also related with six Joint Venture Commercial Banks which are operated in Nepal. This study based on the current data thus this study is a little different from other research study.

CHAPTER-THREE

RESEARCH METHODOLOGY

Research methodology is a method of solving the research questions. It helps to make the research study meaningful and more scientific. Therefore here appropriate research methodology applied in the study to achieve the objectives of the study. The methodology of this research includes the research design, population and sampling, source of data, data collection procedure, procedure of presentation and analysis of data and respondent's profile.

3.1 Research Design

Research design is a framework of the study, guiding the collection and analysis of the data, the research instruments to be utilized and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data of the identity: what the researcher wants to know? What has to be deal with in order to obtain the required information?

Considering the objective of the study descriptive and analytical research design has been used. The research has been carried out for examining the contribution of Joint Venture Bank in income tax collection in Nepal. The study has also made an effort to find out income tax related problems facing by Joint venture bank and special facilities and benefits provided to banks by income act 2058. This research study attempted to analyze the primary data as well as secondary data. Both types of data are used therefore; this research has followed historical research and descriptive research. Historical research in secondary data and descriptive research I used in primary data.

3.2 Population and Sample

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. Similarly, sample is a collection of items or elements from population. Hence, a simple is only a portion or subset of the population. It comprises some observations selected from the population.

For secondary data all 32 commercial banks which are operated in Nepal are the populations for this study reports but among this only six joint venture banks are selected for our study report.

In this study, for primary data, all the bankers and tax experts are considered as total population. Out of them expert in Kathmandu valley and Bankers affiliated in Joint Venture Bank are considered as targeted population.

Out of target population, 30 Bankers and 30 tax experts are sample, which shows in the table no. 3.1

Table 3.1

Groups of Respondents and their Samples Size

S.N.	Denomination of the Respondents	Sample Size
1.	Tax experts	30
2.	Bankers	30
Total		60

3.3 Sample Procedures

The total population has been classified into two groups, Tax expert and bankers. Convenient sampling procedure is used to sample process.

Tax expert: Tax experts are taken from different groups, which are tax practitioners, tax officer and teacher. At least nine samples were selected from each of these groups.

Bankers: All the bankers who are affiliated with Joint Venture Bank. Out of them 30 bankers are taken as sample size. Which are taken from six Joint Venture Banks, at least five bankers are taken from one Joint Venture Banks.

3.4 Nature and Sources of Data

The data used in this research were primary and secondary data. All the numerical data were collection from the secondary sources like, annual report, income tax act, economic survey and websites of joint venture banks. Required information was collected from primary sources. The main sources of primary data were as, self-structural questionnaire (Annex I), informal and form dialogues, discussion and interviews with concerned person.

3.5 Data Collection Procedure

3.5.1 Secondary Data

Secondary Data are collected from quarterly economic bulletins published by NRB, Economic Surveys published by Ministry of Finance, annual reports and web sites of respective banks etc. Annual report is collected by visiting the respective banks and their websites. Economical survey are collected by visiting ministry of finance, the other source of secondary data are accessed through website, journals and newspapers.

3.5.2 Primary Data

Primary Data are collected by using self administered questionnaires which are distributed to tax expert and bankers. Mainly list, ranking and viewing types of questionnaires are used. Both closed and open- end questions are included in the questionnaires. Respondents are first visiting and required

from competing questionnaires if he accepts the questionnaires are handed. Telephone and email are also used to fill the questionnaires. The completing questionnaires re collected in appropriate time. To get more reliable and further information, discussions and interview are also held with respondents.

3.6 Method of Data Presentation and Analysis

The collected data from secondary and primary sources are presented in appropriate and suitable form like table diagrams and figures etc.

Available data have been presented and analyzed in descriptive way. In primary data analysis, first the collected questionnaires are classified into two groups according to simple population. Some hypothesis has been tested to know whether there is significant difference between the opinion of tax experts and employees and diagrams are used along with percentage as demanded. From these tabulated data, using simple arithmetic mean and ratio where ever necessary made interpretations. Similarly, standard deviation and co-efficient of variation are also used to show the status of taxpaying from Joint Venture banks. Chi-square test was also use for testing of hypothesis. Correlation coefficient use to show the relation between tax revenue, total revenue and income tax from JVBs and relation between opinions of tax.

3.7 Respondent's Profile

Questionnaires were distributed to 32 bankers and 33 tax experts. Out of them 30 bankers and 30 tax experts returned the questionnaire. The table 3.2 reveals the difference denominations number and percentages of responses received from the respondents.

Table no. 3.2
Respondents Profile

Denominations	No. of Questionnaire Misrouted	No. of Questionnaires Collected	Response rate (%)
Tax experts	33	30	93.75
Bankers	32	30	90.90
Total	65	60	92.30

CHAPTER -FOUR

PRESENTATION AND ANALYSIS OF DATA

Analysis and presentation of Data covers structure of Nepalese government revenue, Contribution of tax revenue to the total revenue, structure of income tax in Nepal, Income tax collection from Joint Venture Banks, Contribution of income tax collection from Joint Venture Banks to total income tax collection, Ratio of income tax collection from Joint Venture Banks in total tax revenue and total income tax. Second part of the chapter covers Analysis of Bankers opinion survey, Analysis of tax expert opinion survey and comparative analysis of the opinion survey etc.

4. Presentation and Analysis of Secondary Data

4.1 Structure of Nepalese Government Revenue

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non- tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect tax is the composition of customs, excise, sales tax, vat and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities in the form of fees, fines etc. The non- tax revenue consist various sources.

Mostly incomes of the government are custom duty, excise duty and sales tax or VAT of indirect tax group. Custom duties consist of export, import Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial production the other indirect taxes, which are also important in government revenue are contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals and organizations income or profit. Income tax is the composition of income or profit of public enterprises, semi

public enterprises, private corporate bodies, individual and remuneration. The house and land registration is also the part of direct tax.

Non-tax revenue of the government includes various registration fees income from sale of government services and product, dividend received, royalties, principal and interest received, and miscellaneous. The registration fees include firm registration, vehicle registration and licensed registration and so on. Water charge telephone charge, post services, income from education, income from food agriculture and income from transportation are the major factors of sales of government services and products. Government receives dividends from financial institutions, trading compares industrial enterprise and service - oriented organizations similarly, royalty form mine is also non-tax revenue of the government.

The revenue of the government includes different items. As shown in table no 4.1 more than 75% has been collected from tax revenue. The starting year of analysis (The fiscal year 2001/02) had collected 77.97% by tax revenue and 22.03 % by non tax revenue. In the tax revenue, indirect tax revenue has been occupying higher share (percentage) than direct tax revenue.

The custom duty is one of important items of indirect tax group. It has been covering major place in the indirect tax as well as whole items of government revenue. In fiscal year 2001/02, the share of custom duty is 24.76% of total government revenue. It is decreased to 19.04% in fiscal year 2006/07 and 17.87% in fiscal year 2010/11. The trend of custom duty is going to be decreased after fiscal year 2003/04.

The sales tax or value added tax has been slightly being volatile. In the fiscal year 2001/02 the sales tax was 24.32% i.e. Rs. 12267.30 million. It had taken second position in this fiscal year among the tax revenue of the government.

Table No-4.1
Composition of Government Revenue in Nepal (By Head and Time)

(Rs in Millions)

Fiscal Year	2001/02	2002/2003	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Revenue Head										
Custom Duties (1)	12492.60 (24.76%)	14236.40 (25.58%)	15554.20 (24.95%)	15701.50 (22.39%)	15343.70 (21.23%)	16699.30 (19.04%)	21062.60 (19.57%)	26622.50 (18.55%)	35151.60 (19.53%)	35708.60 (17.87%)
Value Added Tax (2)	12267.30 (24.32%)	13467.30 (24.19%)	14498.20 (23.26%)	18897.90 (26.95%)	21615.40 (29.90%)	26145.40 (29.80%)	29784.60 (27.67%)	39604.20 (27.60%)	24315.10 (27.60%)	26542.20 (30.86%)
Excise (3)	3973.3 (7.88%)	4777.50 (8.58%)	6221.40 (9.98%)	6446.30 (9.19%)	6506.50 (9.00%)	9343.60 (10.65%)	11229.20 (10.43%)	16272.50 (11.34%)	35151.60 (13.51%)	35708.60 (13.28%)
Income Tax (4)	8903.60 (17.65%)	8132.20 (14.61%)	9504.00 (15.24%)	10456.00 (14.91%)	10933.50 (15.13%)	15730.00 (17.93%)	19067.50 (17.72%)	27479.70 (19.15%)	33832.10 (18.80%)	12066.30 (21.05%)
Other Direct Tax (5)	1135.70 (3.36%)	1973.60 (2.53%)	2397.90 (3.86%)	2605.30 (3.72%)	3027.90 (4.19%)	3249.70 (3.70%)	4003.20 (3.77%)	7072.90 (4.94%)	7928.40 (4.50%)	6574.60 (3.40%)
Total Tax Revenue (A) 1+2+3+4+5	39332.20 (77.97%)	42027.70 (75.49%)	48175.70 (77.29%)	54104.90 (77.16%)	57427.00 (79.45%)	71168.00 (81.12%)	85147.10 (79.16%)	117051.80 (81.58%)	156290.70 (86.85%)	172755.20 (86.46%)
Total Non Tax Revenue (B)	11113.40 (22.03%)	13642.80 (24.51%)	14155.30 (22.71%)	16017.90 (22.84%)	14855.10 (20.55%)	16544.10 (18.88%)	22475.60 (20.84%)	26422.60 (18.42%)	23649.70 (13.15%)	27064.30 (13.54%)
Total Revenue of Government (A+B)	50445.60	55670.50	62331.00	70122.80	72282.10	87712.10	107622.70	143474.40	179940.40	199819.60

Sources: Economic Survey Different Years (Ministry of Finance, Nepal Government.)

Quarterly Economic Bulletin of Nepal Rastra Bank (Mid July 2004 and Mid July 2012)

Note: *(i) Other Direct Tax include land and building registration tax +property tax+ vehicle tax.

ii) Income Tax includes corporate income tax, remuneration tax, Investment tax and other income tax.

In fiscal year 2004/05, it was 26.95% and had taken 1st position among the tax revenue as well as government whole revenue collection. After fiscal year 2004/05 it has taken 1st position among the tax revenue as well as whole government revenue collection of the Nepal. It was decreased by small percentage in fiscal year 2007/08 and fiscal year 2008/09. After fiscal year 2009/10 it is in increasing trend and taking 1st position among the total revenue of government. It is 30.86% of total government revenue in fiscal year 2010/11 with the realization of Rs. 62659.10 million.

The excise duty is also the indirect tax which is imposed in the liquors production and other industrial production. It has been slightly increased from the beginning. It was 7.88% in the fiscal year 2001/02 with the amount of Rs. 3973.3 million. It was 9.19% of total government revenue in the fiscal year 2004/05 but it slightly decreased in the fiscal year 2005/06 by 0.19% being 9.00% realization of total government revenue. It again increased to 10.65% of total government revenue in fiscal year 2006/07. It was 11.34% in fiscal year 2008/09 and increased up to 13.51% of total government revenue in fiscal year 2009/10 and 13.28% in fiscal year 2010/11 with the amount of Rs. 26542.20 million. It has taken fifth position in revenue collection of the government in fiscal year 2010/11.

In fiscal year 2001/02 the rate of realization of income tax was 17.65% of total government revenue. Then it was decreased to 14.61% in fiscal year 2002/03. It was increased to 15.24% in fiscal year 2003/04. But there after it was increased to 17.93%, 17.72% and 19.15% in the fiscal year 2006/07, 2007/08 and 2008/09 respectively. It was 18.80% in fiscal year 2009/10. It was increased to 21.05% in fiscal year 2010/11. The realization amount was Rs. 42066.30 million in fiscal year 2010/11. It has been taken fourth place in total government revenue collection since fiscal year 2001/02 to fiscal year 2007/08. After fiscal year 2007/08, it has been taking 2nd or third position of the government revenue. It has taken 2nd position in total government revenue collection of Nepal in fiscal year 2010/11.

The other direct tax includes land and building registration tax, property tax and vehicle tax. These all taxes are direct taxes. The share of this tax in the total government revenue is not constant. The share of this tax was 3.36% of total government revenue in the fiscal year 2001/02. In the fiscal year 2003/04 it was increased to 3.86%. Again it decreased to 3.72% in fiscal year 2004/05. It was increased in fiscal year 2005/06 up to 4.19%. In fiscal year 2008/09, it becomes 4.94% and in fiscal year 2009/10 it is decreased to 4.50% of government revenue. In the fiscal year 2010/11, it realized Rs. 6574.60 million of the total government revenue. The share of other direct tax is 3 % to 4% of total government revenue during the study period.

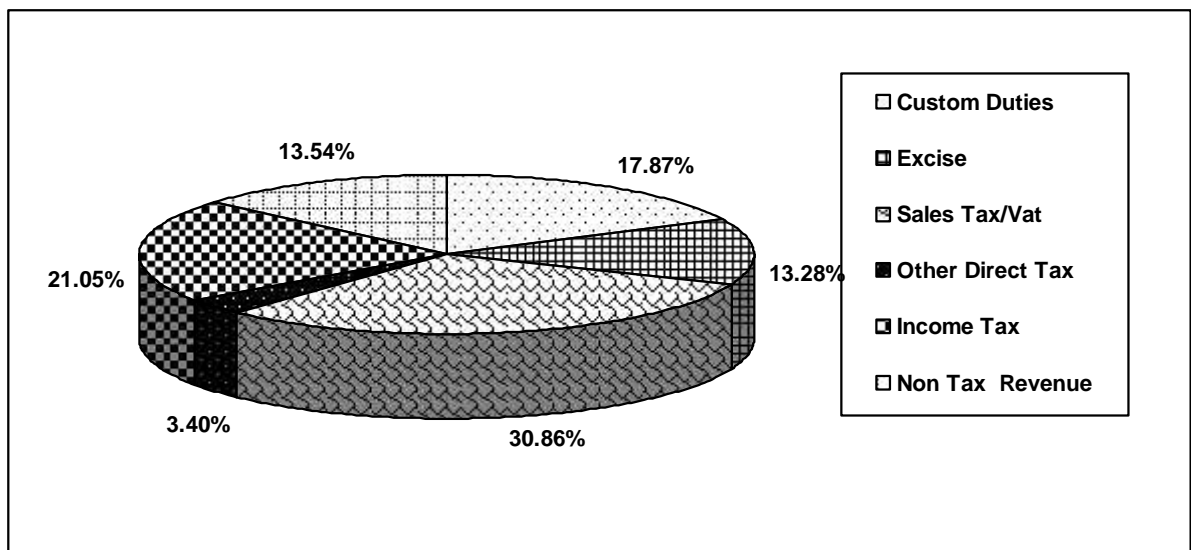
The non tax revenue of the government also contributed significant role to the government revenue. It is 22.03% in fiscal year 2001/02 and it becomes 24.51% in fiscal year 2002/03. It has decreased to 22.71% in fiscal year 2003/04. It has again increased to 22.84% in fiscal year 2004/05 and has decreased to 20.55% in fiscal year 2005/06. After fiscal year 2005/06, it has been decreasing

trend and become 13.54% in fiscal year 2010/11. It has second, third or fourth position in the different fiscal year during the study period of the fiscal year. It has been taken 3rd position in fiscal year 2010/11 with the total realization amount of Rs. 27064.30 million.

In conclusion, the composition of government revenue has shown the variation in different types of tax and non-tax revenue items. The VAT or Sales tax is the main source of the government revenue of Nepal. The income tax is in increasing order from the beginning of the study period except some fiscal years. It has taken 14% to 21% share on government revenue of the Nepal. It seems progressive in the nature. The below figure shows the composition of government revenue in Nepal for fiscal year 2010/11.

Figure 4.1

Composition of Government Revenue in Nepal for fiscal years 2010/11



4.2 Contribution of Tax Revenue to the Total Revenue:

Revenue of government is the composition of tax and non-tax revenue tax revenue has been classified into direct and indirect tax. Direct tax is the composition of income tax, land tax, property tax, interest tax and other direct tax. Similarly, indirect tax is the composition of customs, excise duty, VAT and other miscellaneous indirect tax revenues. Non-tax revenue of the government is also important revenue source. Table no 4.2 Shows the comparison between tax revenue and non-tax revenue collection.

Table 4.2

Contribution of Tax Revenue to the Total Revenue:

(In million)

Fiscal year	Total Revenue	Tax Revenue	% Of Tax Revenue	Non-Tax Revenue	% Of Non Tax Revenue
2001/02	50445.60	39332.20	77.97	11113.40	22.03
2002/03	55670.50	42027.70	75.49	13642.08	24.51
2003/04	62331.00	48157.70	77.29	14155.30	22.71
2004/05	70122.80	54104.90	77.16	16017.90	22.84
2005/06	72282.10	57427.00	79.45	14855.10	20.55
2006/07	87712.10	71168.00	81.14	16544.10	18.86
2007/08	107622.70	85187.10	79.15	22475.60	20.85
2008/09	143474.40	117051.80	81.58	26422.60	18.42
2009/10	179940.40	156290.70	86.86	23642.70	13.14
2010/11	199819.60	172755.20	86.45	27064.30	13.55
Average Collection (%)			80.25		19.75

Sources:

- Economic Survey Different Years (Ministry of Finance, Nepal Government.)

- Quarterly Economic Bulletin of Nepal Rastra Bank (Mid July 2004 and Mid July 2012)

Figure -4.2

Contribution of Tax Revenue and Non-Tax Revenue to Total Revenue:

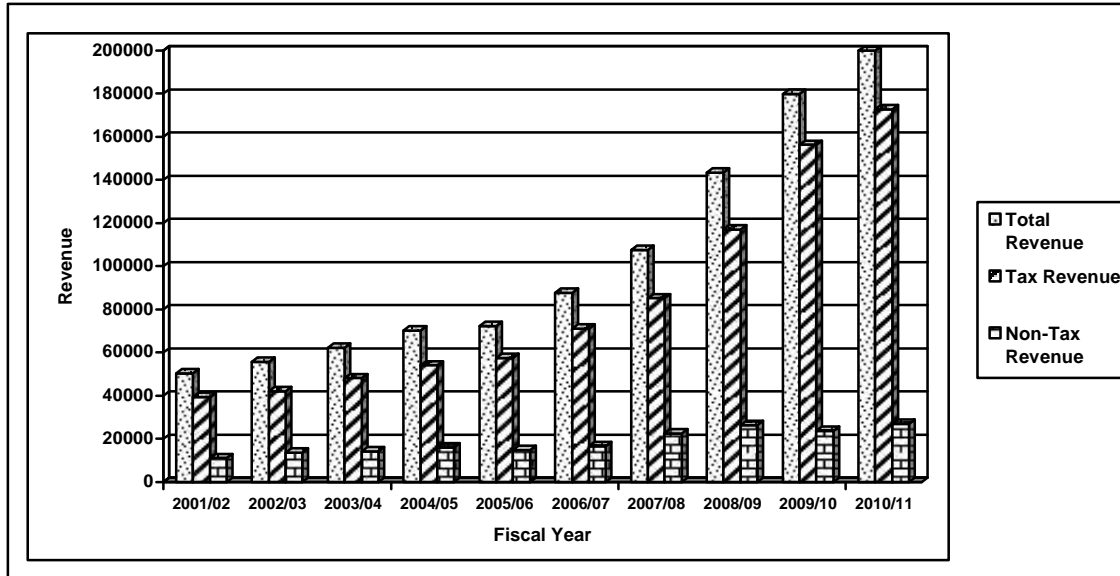


Table No.4.2 presents that the tax revenue is more contributed than non-tax revenue. Total revenue, tax revenue and non-tax revenue all are increasing in every year. Tax revenue contributed more than 80% on average in the total revenue but non-tax revenue contributed 19.00 % on average. In fiscal year 2001/02, tax revenue contributed Rs. 39332.20 million, which is 77.97% of total revenue of the government. It was 75.49% and 77.29% in fiscal years 2002/03 and 2003/04 respectively. It was decreased to 75.49% in fiscal year 2002/03 which was lowest realization of the tax revenue than the other fiscal years during the study period. After fiscal year 2002/03, it is in increasing trend and reached to 81.14% of total government revenue in fiscal year 2007/08. In fiscal year 2007/08, it again decreased to 79.15%. After fiscal year 2007/08, it is increasing in every fiscal year. In fiscal year 2008/09, it is 81.58% and in fiscal year 2009/10 it is 86.86%. In fiscal year 2010/11, tax revenue contributed Rs. 172755.20 million which is 86.45% of total government revenue of Nepal. Here we can say that

contribution ratio of tax revenue to the government revenue of Nepal is more than 80% and it is going to be increased in every fiscal year.

The ratio of non tax revenue collection is more than 19% on average and the ration is decreased in every fiscal year during the study period. It was 22.03% of total revenue of the government in fiscal year 2001/02. It was increased to 24.51% in fiscal year 2002/03 and decreased up to 18.86% in fiscal year 2006/07. Again it increased in fiscal year 2007/08 up to 20.85%. After fiscal year 2007/08, it is decreasing in every fiscal year. It becomes 13.55% in fiscal year 2010/11. It shows that the contribution ratio of non tax revenue is decreased in every fiscal year.

The above analysis shows that the tax revenue is more contributing than non tax revenue in total government revenue of Nepal. The analysis also shows the average collection through tax revenue is 80.25% and non tax revenue is only 19.75%. It is proved that tax revenue is a major source of revenue of the government of Nepal. This interpretation is also understood through the chart 4.2 which represents the same matter.

4.3 Share of Direct Tax on Total Revenue and Total Tax Revenue:

Tax revenue is divided into two classes, one is direct tax and other is indirect tax. A direct tax is such type of tax, which is imposed to the person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. The taxpayers from other person cannot realize the taxpayers from other person. He must pay it from his own pocket. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax and other are the best examples of direct taxes. On the other hand, an indirect tax is such types of tax, which is imposed to any person without direct collecting from him.

Table 4.3

Ratio of Direct Tax in Total Revenue and Total Tax Revenue

(In million)

Fiscal year	Total Revenue	Total tax revenue	Direct tax	% of Direct tax on total revenue	% of Direct tax on total tax revenue
2001/02	50445.60	39332.20	10039.30	19.90	25.52
2002/03	55670.50	42027.70	9546.50	17.15	22.71
2003/04	62331.00	48175.70	11201.50	17.97	23.25
2004/05	70122.80	57427.00	12255.20	17.48	22.65
2005/06	72282.10	71168.00	13961.50	19.31	24.31
2006/07	87712.10	85147.10	18979.60	21.63	21.64
2007/08	107622.70	54104.70	23070.80	21.44	27.09
2008/09	143474.40	117051.80	34552.60	24.08	29.52
2009/10	179940.40	156290.70	41760.50	23.21	26.72
2010/11	199819.60	172755.20	48641.00	24.34	28.17

Source:

- Economic Survey Different Years (Ministry of Finance, Nepal Government.)
- Quarterly Economic Bulletin of Nepal Rastra Bank (Mid July 2004 and Mid July 2012)

Note: - Direct Tax= Income Tax+ Land and Building Registration + Property Tax+ Vehicle Tax.

An Indirect tax is imposed on one person but paid partly or wholly by another. Sales tax VAT, entertainment tax, customs, excise duty are the good examples of this tax. Thus direct tax is any tax, which is imposed to a person who bears its economic impact by himself, indirect tax is any tax in which the economic impact is passed to other person for instance, government imposes value

added tax on goods sold, but the amount of VAT is collected from customers. Here tax is imposed to sales man however, the buyer pays tax indirectly.

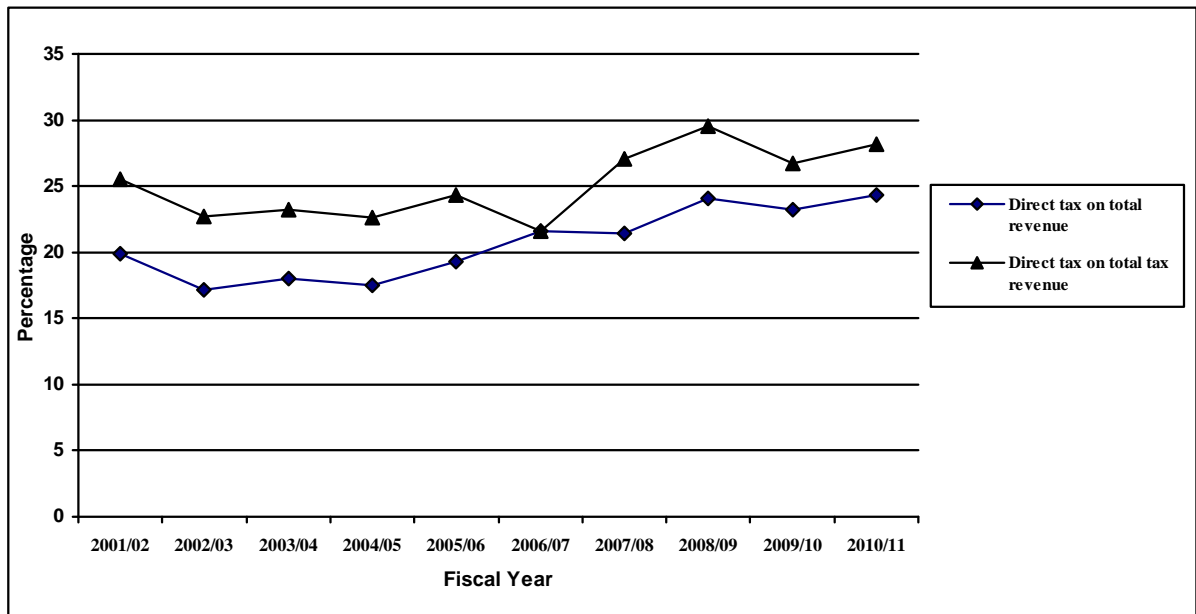
Table No.4.3 shows the contribution ratio of direct tax on tax revenue and total revenue of the government of Nepal. The relationship is also presented in the chart 4.3. The initial share of direct tax on total revenue is 19.90% in fiscal year 2001/02. It decreased to 17.15% in fiscal year 2002/03. During the review period of ten years the highest rate of direct tax on total government revenue is 24.34% in fiscal year 2010/11 with the realization amount of Rs. 48641.00 million. The lowest rate of direct tax on total government revenue is 17.15% in fiscal year 2002/03. During the study period, the average rate of direct tax on total revenue of government is 17.15% to 24.34%.

The contribution of direct tax revenue on total tax revenue in the fiscal year 2001/02 is 25.52%. It is decreased to 22.71% in fiscal year 2002/03 which is the lowest share of direct tax on total tax revenue during the review period of time. The highest share of direct tax on total tax revenue is 28.52% in fiscal year 2008/09 during the review period. In fiscal year 2009/10 it decreased to 26.72% and in the fiscal year 2010/11, it is 28.17%.

Thus, the interpretation shows that the trend of direct tax collected is positive i.e. it is in increasing order with small violate. The reason behind of increasing was the increment of income tax collection and other direct taxes. The income tax collection has been increasing due to increasing number of taxpayers and their taxable revenue and profit. In conclusion, it can be said that the positive trend of direct tax denotes economic improvement of the nation, even though nation is in deep trouble in these days due to the political crisis.

Figure no: 4.3

Ratio of Direct Tax in Total Tax Revenue and Total revenue:



4.4 Structure of Income Tax in Nepal

The total income tax is the composition of the various tax collected from different income generated sectors like Income Tax from Government Corporation, Public Limited Company, Private Limited Company, Sole Trading Concerns and Individual Business Organization, Other Institutions, Remuneration Income Tax from Individuals and Income Tax from Investment Income including others. The component of income tax in Income Tax Act 2058 was divided into three income heads such as Employment income, Investment Income and Business Income.

From the table 4.4, talking about the growth rate of Income Tax year wise, we can see that Income Tax is in fluctuation situation in every fiscal year. In fiscal year 2001/02, the total income tax is Rs. 8903.60 million and it decreased to Rs. 8132.20 million in fiscal year 2002/03. Thereafter total Income tax is in increasing

trend. Total Income Tax becomes Rs 42066.33 million in 2010/11. During the study period, Income Tax increased by 373% from fiscal year 2001/02 to fiscal year 2010/11. The growth rate is 24.34% in fiscal year 2010/11 than fiscal year 2009/10. Although the income tax is in increasing situation in every year but its growth rate is in fluctuation condition.

The Income Tax contribution of Public Limited Company has occupied first position in total income tax revenue of Nepal. It covers more than 30% in total income tax revenue of Nepal. In initial stage share of Income Tax from Public Limited Companies was less than 25% of total tax revenue. But after fiscal year 2005/06, it has occupied more than 30% to 38% of total tax revenue. In fiscal year 2007/08, it was 37.80% which is the highest realization during the study period. It is 33.20% in fiscal year 2010/11 and it was 35.54% in fiscal year 2009/10.

Tax from Private Limited Company also occupied more than 13% share on total income tax revenue of Nepal. It plays important role to collect income tax revenue being second or third position during the study period. It is 17.19% in fiscal year 2010/11 which has occupied third position among other.

Income Tax from Investment and other also playing an important role in collection of income tax of the Nepal. It has taken second or third position in collection of income tax during the study period. It occupies 17.58% in fiscal year 2010/11 being second position among other items.

Remuneration Income occupies fourth or fifth position in income tax collection of Nepal. It occupies more than 12% share on income tax collection during the study period. It occupies 13.94% in fiscal year 2010/11 being fourth position in income tax collection.

Table 4.4
Structure of Income Tax in Nepal

Fiscal Year	Govt. Corporation		Public Ltd. Corporation		Private Ltd. Corporation		Individual & Sole Trading Concern		Income from other Institutions		Remuneration Income		Investment Income		Total
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	
2001/02	1769.2	19.87	1410.1	15.84	1176.0	13.21	2897.0	32.54	0.00	0.00	835.40	9.38	8159.0	9.16	8903.6
2002/03	1251.0	15.38	1235.1	15.19	1166.7	14.35	1801.7	22.15	99.5	1.22	1249.0	15.36	1329.2	16.34	8132.2
2003/04	2056.6	21.64	1531.3	16.11	1239.8	13.04	1869.7	20.80	107.6	1.13	1392.9	14.66	1306.1	13.74	9504.0
2004/05	1331.5	12.73	2467.6	23.60	1527.3	14.61	1876.8	17.95	128.1	1.23	1678.2	16.05	1446.5	13.83	10456.0
2005/06	195.8	1.79	3405.6	31.15	1703.0	15.57	1958.8	17.91	313.4	2.87	1771.1	16.20	1585.9	14.50	10933.5
2006/07	1019.5	6.48	5716.4	36.34	2310.0	14.68	2303.4	14.64	255.6	1.62	2006.8	12.76	2118.3	13.47	15730.0
2007/08	183.4	0.96	7207.3	37.80	3135.2	16.44	2452.2	12.86	285.1	1.50	2452.0	12.86	3352.4	17.58	19067.5
2008/09	95.97	3.49	9428.2	34.31	4200.5	15.29	4481.6	16.31	576.4	2.10	3398.5	12.37	4434.8	16.14	27479.7
2009/10	1132.5	3.34	12023.5	25.54	6268.8	18.53	3842.3	13.25	787.1	2.33	4420.0	13.06	5357.8	15.84	33832.1
2010/11	1282.0	3.04	13967.2	33.20	7232.9	17.19	4895.7	11.65	1429.5	3.40	5863.8	13.94	7395.4	17.58	42066.3

Source: - Economic Survey Different Years (Ministry of Finance, Nepal Government.)

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Tax from Individual firm and sole trading concern has been taking an important role in collection of income tax. In initial stage its share is very high but after fiscal year 2001/02, it is continuously decrease. In fiscal year 2001/02 it has occupied 32.54% but in fiscal year 2010/11, it is only 11.65% of total income tax collection. It is in fifth position in fiscal year 2010/11.

Income tax collection from Government Corporation is very low. In initial stage it occupied important role in income tax collection of Nepal. The percentage of share of Income Tax Collection from government Corporation is in decreasing order. In fiscal year 2010/11, it is only 3.04% of total tax collection of Nepal.

Income Tax from other institutions occupied 1% to 3% share on income tax collection of Nepal. In fiscal year 2010/11, it is 3.40% and it is in increasing order in every year during the study period.

The total income tax collection has been realized from various tax payers. Some of them have been showed slight up and downs. Tax from Private Company Limited, Public Company Limited, Tax on Investment Income and Tax on Remuneration Income has occupied important and significant role in income tax collection of Nepal for last 5 years. Other taxes are in increasing order with small fluctuation but tax from Government Corporation is decreasing every year during the study period. Total income tax is increasing every year after fiscal year 2002/03.

4.5 Income Tax Collection from Joint Venture Bank

This part of analysis also shows the contribution of Corporate Income Tax Collected from Joint Venture Banks to Total Corporate Tax Revenue and Total Revenue of Nepal.

Table-4.5 (A)

Income Tax Collection from Joint Venture Banks (In million)

Fiscal Years	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Banks										
NABIL Bank	158.51	199.15	201.76	237.76	262.74	321.09	342.52	447.61	489.08	569.73
Stand Chartered Bank	200.43	208.22	235.79	261.90	280.62	324.43	374.45	442.10	450.50	479.15
Himalayan Bank	114.02	147.89	157.52	214.26	214.94	225.58	312.97	313.77	246.92	344.62
Nepal SBI Bank	16.03	20.30	48.67	67.81	82.76	79.68	100.26	126.65	146.62	206.33
Nepal Bangladesh	69.40	120.00	97.00	100.00	80.34	184.20	165.49	227.45	184.20	189.99
Everest Bank	42.04	41.71	67.55	81.91	108.31	158.30	207.40	252.70	356.20	399.70
Total	600.43	737.27	808.29	963.58	1029.71	1303.28	1503.09	1810.28	1870.52	2189.52

Source: Annual reports of relevant Joint Venture Banks.

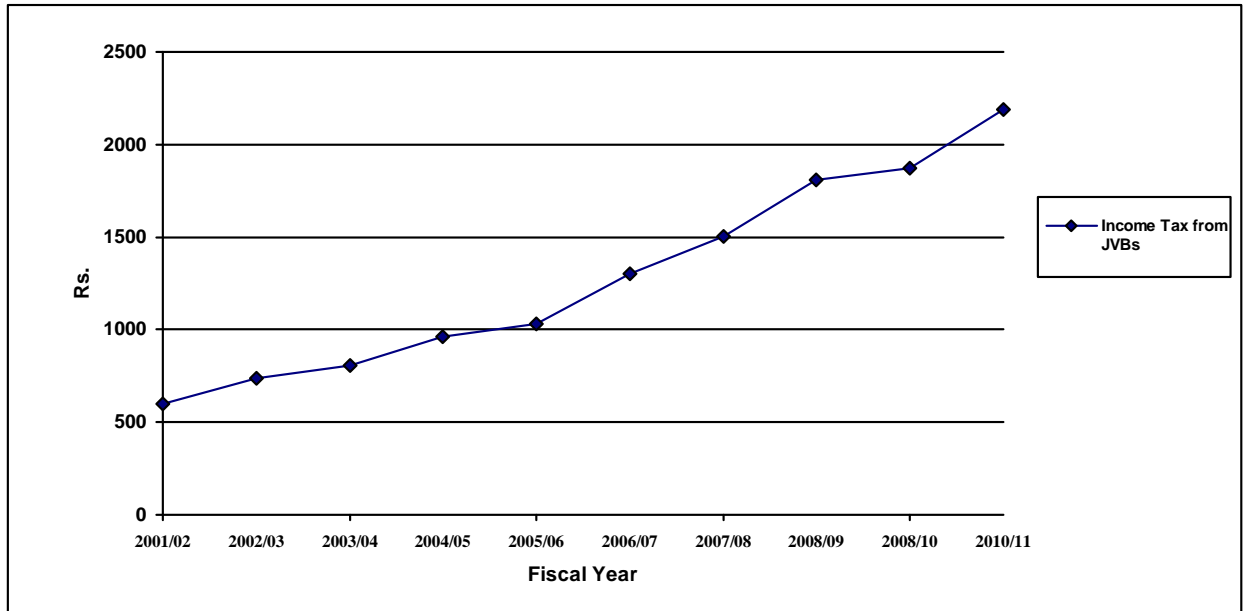
The table No. 4.5 presents the total tax collected from six joint venture banks of last 10 fiscal years from fiscal year 2001/02 to fiscal year 2010/11. In the table 4.5 the total income tax collected from various joint venture banks has been presented, where it is clear that the total income tax collection from joint venture banks are in increasing trend which reflects that is good point to the government also.

According to the table, Standard Chartered Bank Limited and Nabil Bank Limited are high income tax payer joint venture banks in Nepal. In the fiscal year 2001/02, total tax collected from joint venture banks is Rs. 600.43 million. In fiscal year 2002/03, total tax collected from joint venture banks is Rs. 737.27 millions. Total tax collected from joint venture banks is increasing in each fiscal year. It becomes Rs. 808.29 millions in fiscal year 2003/04 and 963.58 millions in fiscal year 2004/05. It increased to Rs. 1029.71 millions in fiscal year 2005/06, Rs. 1303.28 millions in fiscal year 2006/07, Rs. 1503.09 million in fiscal year 2007/08 and Rs. 1810.28 millions in fiscal year 2008/09. It becomes Rs. 1870.28 millions in fiscal year 2009/10 and Rs. 2189.52 millions in fiscal year 2010/11.

In the fiscal year 2010/11 total income tax collected from joint venture banks is Rs. 2189.52 millions which is 17.05% more than previous fiscal year 2009/10. In the fiscal year 2010/11, among the total tax collection from joint venture banks, Nabil bank covers the highest position, Standard Chartered Bank is in second position, Everest Bank Limited is in third position and Himalayan Bank is in fourth position. Nepal SBI Bank Limited is in fifth position and Nepal Bangladesh Bank Limited is in sixth position. During the study period of ten years income tax collection from joint venture banks increased by 264.66%.

Figure- 4.5(A)

Income Tax Collection from Joint Venture Bank (In million)



4.6 Contribution of Income Tax Collection from Joint Venture Banks to Total Tax Revenue and Total Revenue of Government

The Table no.4.6 presented below the contribution ratio of income tax collected from Joint Venture Banks in total tax revenue and in total revenue of the government of Nepal for the last ten fiscal years. We know that total revenue includes Total Tax Revenue and Non Tax Revenue where in Total Tax Revenue there is included only tax revenue of the government. According to this table, Income Tax Collection from JVBs is 1.19% of total government revenue in beginning fiscal year 2001/02 and it is 1.13% in fiscal year 2002/03 and 1.30% in fiscal year 2003/04. The ratio of contribution of JVBs to the total revenue of the government is increasing up to the fiscal year 2006/07. The highest percentage of the contribution ratio of JVBs to the total revenue of the government during the study period is 1.49% which is in fiscal year 2006/07. After fiscal year 2006/07, it is decreasing every year up to the fiscal year 2009/10. In fiscal year 2010/11, it becomes 1.10% which is increased by

0.06% than fiscal year 2009/10. Contribution of Joint Venture Banks to the total tax revenue of the government also fluctuating in each year during the study period.

Table 4.6

Contribution of Income Tax Paid by Joint Venture Bank to Total Government Revenue and Total Tax Revenue

(Rs in million)

Fiscal year	Total Revenue of Government	Total Tax Revenue	Income tax from JVBs	% of JVBs on total govt. revenue	% of JVBs on total tax revenue
2001/02	50445.6	39332.2	600.43	1.19	1.53
2002/03	55670.5	42027.7	737.27	1.32	1.75
2003/04	62331.0	47175.7	808.29	1.30	1.68
2004/05	70122.8	54104.9	963.58	1.37	1.78
2005/06	72282.1	57427.0	1029.71	1.42	1.79
2006/07	87712.1	71168.0	1303.28	1.49	1.83
2007/08	107622.7	85147.1	1503.09	1.40	1.77
2008/09	143474.4	117051.8	1810.28	1.26	1.55
2009/10	179940.4	156290.7	1870.52	1.04	1.20
2010/11	199819.6	172755.2	2189.52	1.10	1.27

Source: -

Economic Survey Different Years (Ministry of Finance, Nepal Government.)

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Annual reports of relevant Joint Venture Banks.

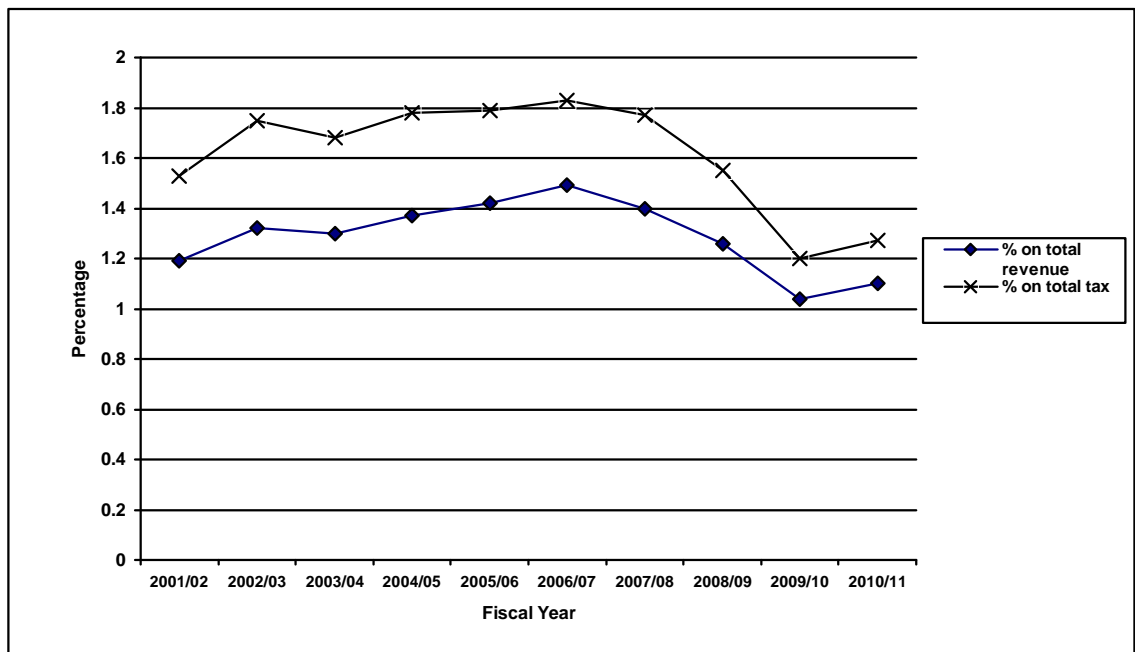
In fiscal year 2001/02, it is 1.53%. It increased to 1.75% in fiscal year 2002/03 and decreased to the 1.68% in fiscal year 2003/04. It is increasing up to the fiscal year 2006/07. In fiscal year 2006/07, it becomes 1.83%, which is highest percentage during the study periods. After fiscal year 2006/07, it is

decreasing in each year and becomes 1.27% in fiscal year 2010/11. It is increased by 0.07% in fiscal year 2010/11 than previous fiscal year 2009/10.

The table and figure shows contribution ratio of Joint Venture Banks to the total tax collection and total income of the Nepal Government both have been fluctuating during the study period of ten years. The contribution ratio of Joint Venture Banks to the total income and total tax collection both are in the 1% to 2% range. From this analysis we can say that contribution of Joint Venture Banks to total income and total tax collection is not high and not increasing significantly but it plays small roles to it.

Figure 4.6

Contribution of Income Tax paid by Joint Venture Banks to Total Revenue of Government and Total Tax Revenue of Government.



4.7 Contribution of Income Tax Collection from Joint Venture Banks to Total Income Tax collection

Table no. 4.7

Contribution of Income Collection from Joint Venture Banks to
Total Income Tax Collection

Fiscal year	Total Income Tax	Income tax from JVBS	% of income tax from JVBS on Total income tax
2001/02	8903.60	600.43	6.74
2002/03	8132.20	737.27	9.07
2003/04	9504.0	808.29	8.50
2004/05	10456.0	963.58	9.21
2005/06	10933.5	1029.71	9.42
2006/07	15730.0	1303.28	8.28
2007/08	19067.5	1503.28	8.28
2008/09	27479.7	1810.28	6.58
2009/10	33832.1	1870.52	5.53
2010/11	42066.3	2189.52	5.20

Source:

Economic Survey Different Years (Ministry of Finance, Nepal Government.)

Quarterly Economic Bulletin of Nepal Rastra Bank (Mid July 2004 and Mid July 2012)

Annual reports of relevant Joint Venture Banks.

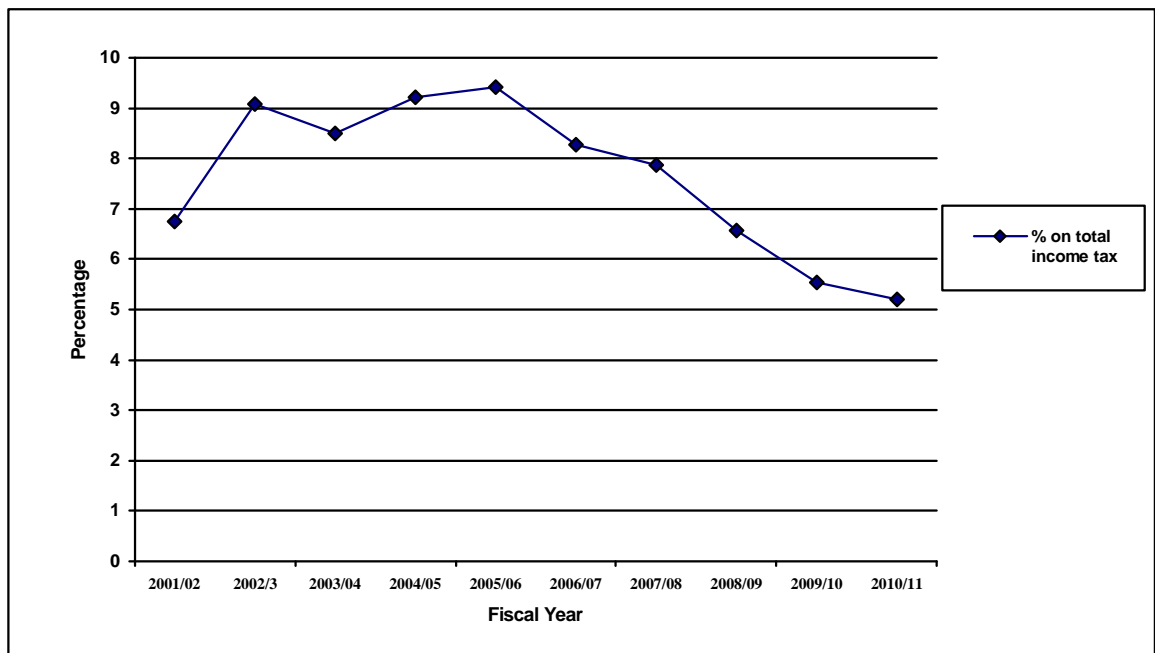
The table no.4.7 presented above shows the structure of contribution ratio of income tax collection from JVBS in total income tax revenue of the government of Nepal. In starting fiscal year 2001/02, income tax collection from joint venture banks is 6.74% of total income tax collection of Nepal. It is increased to 9.07% in fiscal year 2002/03 and decreased to 8.50% in fiscal year 2003/04. In fiscal year 2004/05, it increased to 9.21% and it becomes 9.42% in fiscal year 2005/06. The highest percentage of JVBS to the income tax collection during the study period is 9.42% which is in fiscal year 2005/06.

After fiscal year 2005/06, it is decreasing in every year and becomes 5.20% in fiscal year 2010/11.

During the study period the contribution ratio of JVBs to the income tax collection has been fluctuating in every fiscal year from 5% to 9.4%. From above table we can conclude that income tax collection from Joint Venture Banks contributed 5% to 10% to total income tax revenue of the government of Nepal and the contribution ratio is not stable and it is in decreasing order. The figure 4.7 also represents the above analysis.

Figure no. 4.7

Contribution of Income Tax Collection from Joint Venture Banks to
Total Income Tax Collection



4.8 Relation of Income Tax from Joint Venture Banks with Tax Revenue and Income Tax Revenue:

There are various ways of measuring the relationship between two or more variable. Correlation analysis is used in this study. Correlation gives a simple relationship between the variables. It may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlation when the change in the value of one variable is

accompanied by the change of another variable at this state correlation coefficient lies between -1 and +1 ($-1 \leq r \leq 1$). Greater than Zero to +1 is positive correlation and less than Zero to -1 is negative correlation. +1 is denoted perfect correlation and -1 is denoted perfect negative correlation and -0 is denoted absent of correlation.

Correlation value of tax revenue and income tax from Joint Venture Banks is 0.963 (Appendix three) It presents that there is highly positive correlation between total tax revenue and income tax from Joint Venture Banks. Similarly correlated value of total income tax revenue and income tax from Joint Venture Banks is 0.963% (Appendix four). It also present that there is highly positive correlation between total income tax revenue and income tax from Joint Venture Banks. Therefore, it is prove that if income tax from Joint Venture Banks is increased, income tax and total tax revenue is also increased.

4(B) Empirical Studies

An empirical study has conducted in order to find out various aspect of contribution of JVBs in income tax collection and special provision to banks. The major use in survey research was an opinion questionnaire. Sixty questionnaires were received from the respondents out of 65 questionnaires distributed to them. 60(92.30%) filled questionnaire were received. Among them 30(50%) were tax experts and 30(50%) were bankers.

The respondents were asked to response yes/no or to write their opinion, some of the respondents have show more than one answer and ranked them respectively. Information received from all the respondents was tabulated into the separate table and they were presented in percentage of total numbers or points then analyzed into a descriptive ways.

The following table shows the structure of respondents.

Table no.4 (B)

Structure of the Respondents:

S.N.	Group of Respondents	Sample Size
1	Tax experts	30
2	Bankers	30
	Total	60

4.9 Opinion towards the Income Tax is the Suitable Means of Raising Domestic Resources in Nepal

In order to know, the role of income tax revenue to the domestic resource in Nepal, a question was asked, "In your opinion, is the income tax suitable means of raising domestic resource in Nepal?". The responses received from respondents are tabulated below.

Table 4.9

Opinion towards the Income Tax Suitable Means of Raising Domestic Resource in Nepal?

Response Respondents	Yes		No		Total
	Number	%	Number	%	
Tax expert	26	86.67	4	13.33	30
Bankers	28	93.33	2	6.67	30
Total	54	0.90	6	0.10	60

Source: Opinion Survey 2012

From the above table, it is clear that about 90% of the respondents responded that the income tax suitable means of raising domestic resources in Nepal and about 10% of the respondents responded that income tax is not suitable means of raising domestic resources in Nepal. Thus the conclusion can be drawn that the Income tax is suitable means of raising domestic resources in Nepal.

4.10 Opinion towards Contribution of JVBS to Income Tax Revenue

In order to know, the role of income tax from JVBS in the income tax revenue. A question was asked, "Do you think that the contribution of income tax from Joint Venture Bank is satisfactory?" The responses received from respondents are tabulated below.

Table no. 4.10(a)

Opinion towards Contribution of JVBS to Income Tax Revenue:

Response	Yes		No		Total
	Number	%	Number	%	
Tax expert	12	40	18	60	30
Bankers	13	43.33	17	56.67	30
Total	25	41.67	35	58.33	60

From the above table, it is clear that about 58.33 of the respondents have showed their dissatisfaction regarding the contribution of JVBS to income tax revenue and about 41.67% of respondents' replies that JVBS contribution in the income tax revenue was satisfactory. Thus the conclusion can be drawn that the contribution of JVBS to income tax revenue is not satisfactory.

Test of Hypothesis

Responses	Yes	No	Row Total
Tax experts	12	18	30
Bankers	13	17	30
Column Total	25	35	60

Null Hypothesis (Ho): There is no significant different between the opinion of Bankers and tax experts about the contribution of Joint Venture Banks on income tax revenue.

Alternative Hypothesis (H1): There is significant difference between the opinion of banks and tax experts about the contribution of JVBs on income tax revenue.

Test statistic: Under H_0 , the test statistic is $\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$

Where,

$$f_e = \text{Expected frequency} = \frac{\text{Rowtotal} \times \text{Columntotal}}{\text{Grandtotal}}$$

Calculation of χ^2

$$\text{Calculated } \chi^2 = \sum \frac{(f_o - f_e)^2}{f_e} = 0.1918$$

Degree of Freedom = $n-1=2-1=1$

Level of significance = 5% = 0.05

(Row Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
(1,1)	12	$30 \times 25 / 60 = 12.50$	-0.50	0.25	0.02
(1,2)	18	$30 \times 35 / 60 = 17.50$	0.50	0.25	0.01428
(2,1)	13	$30 \times 25 / 60 = 12.50$	0.50	0.25	0.02
(2,2)	17	$30 \times 35 / 60 = 17.50$	-0.50	0.25	0.1428
		23			$\sum \frac{(f_o - f_e)^2}{f_e} = 0.19$

Tabulated $\chi^2 = 0.05(1) = 3.85$

Decision

Since the calculated value of χ^2 is less than tabulated value of χ^2 , it is not significant and null hypothesis H_0 is accepted which means that there is no significant difference in tax expert and banker views about the contribution of income tax from JVBs to income tax revenues.

Another supplementary ranking question was added to the respondent who replied that the contribution of JVBs is not satisfactory. The question was "If no what are the possible reasons?" The opinions of respondents are presented in the following table.

Table no 4.10(b)

Reasons for Unsatisfactory contribution of Income Tax from JVBs in Income Tax Revenue:

S.N.	Reason	Tax expert (point)	Bankers (point)	Total point	%	Rank
1.	Less number of such banks	30	25	65	8.76	1
2.	Ineffective implementation of the tax Act	65	73	138	18.650	4
3.	Low rate of tax	82	65	147	19.81	5
4.	Low rate of profit	68	26	94	12.67	3
5.	Tax evasion	45	43	88	11.86	2
6.	Others	115	95	210	28.30	6
	Total			742	100	

Source: Opinion Survey 2012

From the table no.4.10 (b), It is cleared that less number of such banks is the main reason for unsatisfactory contribution of income tax from JVBs. In this table ranking together the opinion of both these groups the corresponding prioritized reasons for unsatisfactory contribution of income tax from JVBs in income tax revenue are ranked below in order of preference.

- 1) Less number of such banks
- 2) Tax evasion
- 3) Low rate of profit
- 4) Ineffective implementation of the tax Act

- 5) Low tax rate
- 6) Others

In others reasons most of the respondents have said unclear law and lack of committed tax officers.

It can be concluded that from the opinion of the respondents main reasons behind the unsatisfactory contribution of income tax from JVBs is tax less number of such banks, Tax evasion and low rate of profit of this banks.

To testing the relation between opinion of tax expert and bankers rank correlation coefficient is used which is calculated below.

Test of Rank Correlation Coefficient

Let R1 be the rank of tax experts opinions and R2 be the rank of banker's opinions.

Calculation of Rank Correlation Coefficient:

Reasons	R_1	R_2	$D(R_1 - R_2)$	D^2
Less number of such banks	1	1	0	0
Ineffective implementation of the tax Act	3	5	-2	4
Low rate of tax	5	4	1	1
Low rate of profit	4	2	2	4
Tax evasion	2	3	-1	1
Others	6	6	0	0
Total				$\sum D^2 = 10$

We know,

$$R=1-\frac{6\sum D^2}{n^3-n}$$

Where,

R=Rank correlation coefficient

N= Number of ranks

$\sum D^2$ =Some of square of rank difference.

$$R=1-\frac{6 \times 10}{6^3 - 6}$$

$$R=1-\frac{60}{216 - 6}=1-0.2857=0.7143$$

There is the high degree of positive correlation between opinion of tax expert and bankers. It was proved that ranking of both group are in the same way.

4.11 Opinion towards the Specific Objective of Income Tax Policy of Joint Venture Banks?

In order to know specific objectives of income tax policy of Joint Venture banks, a question was asked, "What should be specific objective of income tax policy of Joint Venture Bank?" The responses received from respondents are tabulated below.

Table no.4.11

Opinion towards the Objective of Income Tax from JVBs

S.N.	Causes	Tax Expert (points)	Bankers (points)	Total	%	Rank
1	To enhance government revenue	86	24	110	14.87	1 st
2	To promote regional economic development	94	38	132	17.83	2 nd
3	To narrow the income gap between rich and poor.	85	58	143	19.32	3 rd
4	To check inflation	105	65	170	22.97	4 th
5	Others	75	110	185	100	

Source: Opinion survey 2012

From the above table it is cleared that to enhance government revenue is the main objective of income tax policy of Joint Venture Bank. The objectives of income tax policy of Joint Venture Banks are ranked below in order to preference according to respondent opinions.

1. To enhance government revenue
2. To promote regional economic development
3. To narrow the income gap between rich and poor
4. To check inflation
5. Others

4.12 Opinion towards the Income Tax Assessment Procedures

In order to know income tax assessment procedure of JVBs, a question was asked, "Do you think that the income tax assessment Procedure of JVBs is sound and efficient?" The responses received from respondents are tabulated below:

Table-4.12 (a)

Opinion towards the Soundness, Effectiveness of Income Tax Assessment Procedure of JVBs

Response Respondents	Yes		No		Total
	Number	%	Number	%	
Tax expert	6	20%	24	80	30
Bankers	18	60	12	40	30
Total	24	40	36	60	60

From the above table, it has been clear that about 60% of the respondents responded that the income tax assessment procedure of JVBs is not sound and efficient. Tax expert has negative opinion about tax assessment procedure of JVBs. 80% of the tax expert respondents responded is negative, About 40% of the respondents replied that the assessment procedure of JVBs is sound and efficient 60% of bankers respondents are positive about it.

From the above responses, it can be concluded that the income tax assessment procedure of JVBs is not sound and efficient.

Another supplementary ranking question was asked to the respondents who replied that the income tax assessment procedure of JVBs is not sound and efficient. The question was "if no, what are the major problems of income tax assessment procedure of JVBs?" The opinions of respondents are presented in the following table.

Table no.4.12 (b)

Problem of Income Tax Assessment Procedure of JVBs:

S.N.	Problems	Tax expert (point)	Bankers (point)	Total	%	Rank
1	Unsuitable tax rate	95	22	117	19.40	3
2	Unfair and weak Administration	36	40	76	12.60	1
3	Vague law and rules	42	44	96	15.92	2
4	Lack of well account keeping procedure	76	52	128	21.22	4
5	Others	118	68	186	30.84	5

Source: Opinion survey 2012

From the table no.4.12 (b) it is cleared that unfair and weak administration is the main problem facing by JVBs to income tax assessment procedure. Vague rules and laws have also a vital problem facing by JVBs to income tax assessment procedure. Ranking together the opinions of both these groups, which are ranked below in order of preference.

1. Unfair and weak administration
2. Vague law and rules
3. Unsuitable tax rate
4. Lack of well account keeping procedure
5. Others

In other reasons, some have said that the bankers have no knowledge about taxation and tax officer are not positive to these banks. To test the relation between opinions of tax experts and bankers about effectiveness of income tax assessment procedure of JVBs, rank correlation coefficient is used which is calculated below.

Here,

Let R_1 be the rank of tax expert opinion and R_2 be the rank of banker's opinions.

Calculation of Rank correlation coefficient

Problems	R_1	R_2	$D(R_1 - R_2)$	D^2
Unsuitable tax rate	4	1	3	9
Unfair and weak administration	1	2	-1	1
Vague law and rules	2	3	-1	1
Lack well account keeping procedure	3	4	-1	1
Others	5	5	0	0
Total				12

We know,

$$R=1-\frac{6\sum D^2}{n^3-n}$$

Where,

R =Rank correlation coefficient, R_1 = Rank by Tax experts

N =Number of ranks, R_2 = Rank by Bankers

$\sum D^2$ = Sum of square of rank difference

$$R=1-\frac{6\sum D^2}{n^3-n}, R=1-\frac{6\times 12}{5^3-5}$$

$$R=1-0.40=0.60$$

This is highly positive correlation between opinion of tax expert and bankers-It was proved that ranking of both groups are similar.

4.13 Opinions towards the Special Facilities and Benefits provide to Banks by Income Tax Act 2058

In order to know the opinions towards the special facilities and benefits provided by Income Tax Act 2058, a questions was asked "Do you think that the special facilities and benefits provided to banks by Income Tax Act are sufficient?" The responses received from respondent are tabulated below.

Table no.4.13

Opinion towards the special facilities and benefits provided to banks

Response	Yes		No		Total
	Number	%	Number	%	
Tax expert	11	36.67	79	63.33	30
Bankers	5	16.67	25	83.33	30
Total	16	26.67	44	73.33	60

Source: Opinions survey 2012

The responses of respondent clear that the facilities and benefits provided to banks by income tax Act are not sufficient. Tax experts and bankers both groups have negative opinions about it. 73.33% of respondents are negative to facilities and benefits provided to banks are sufficient. 26.67% of respondent have negative opinion about it.

From the above responses, it can be concluded that the facilities and benefits provided by income tax Act are not sufficient

4.14 Opinion towards the Reasons to go the Revenue Tribunal for filling Appeals

To know the position of filling appeals in revenue tribunal, the respondents were requested to tick yes/no option the question was "Have you even gone to the revenue tribunal for filling appeals?" The opinion of respondents is as follows:

Table no.4.14 (a)

Opinion towards the filling Appeals

Response Respondents	Yes		No		Total
	Number	%	Number	%	
Bankers	9	56.25	7	43.75	16

Source: Opinion survey 2012

The question was asked only for bankers but there was only 53.33% responses received from the respondent. 56.25% respondents have gone to the revenue tribunal for filling appeals and 43.75% of respondents have not gone to the revenue tribunal. Thus, the conclusion can be drawn out that JVBs are not satisfied to tax assessment and they have gone to the revenue tribunal for filling appeals. Another supplementary ranking question was asked to the respondents who replied that they had gone to the revenue tribunal for filling appeals. The question was "If yes, what were the major reasons to go there?" The opinions of respondents are presented below.

Table no.4.14 (b)

Opinion to go the Revenue Tribunal for filling Appeals

S.N.	Reason	Point	%	Rank
1	High expectation of tax revenue by administration than reality	24	21.42	3
2	Unclear law	14	12.5	2
3	Inappropriate personal ruling by the department	26	23.21	4
4	Expectation of illegal benefit by tax officer.	8	7.14	1
5	Others	40	35.71	5
	Total	112	100	

Source: Opinion survey 2012

From the above table it is cleared that expectation of illegal benefit by tax officer is the main reason to go the revenue tribune for filling appeals. The reason for filling appeal in revenue tribunal by JVBs is ranked below in order of preference according to respondent opinion.

1. Expectation of illegal benefit by tax officer.
2. Unclear law
3. High expectation of tax revenue by administration then reality.
4. Inappropriate personal rulings by the department.
5. Other

In other reasons some have said the bankers and tax officer have no sound knowledge in tax act and rule.

4.15 Opinions towards Fines and Penalties Imposed by Internal Revenue Department

Fine and penalty play significant role to reduce the tax evasion and illegal activities and make morality to the taxpayer. To known the views of respondents about the fine and penalties. The respondents were requested to tick yes /no option. The question was "Do the fines and penalties imposed by Inland Revenue Department are suitable "The opinion of respondents is as follows:

Table 4.15

Opinion towards Suitability of Fines and Penalties

Response	Yes		No		Total
	Number	%	Number	%	
Tax experts	10	37.04	17	62.96	27
Bankers	17	68%	8	32%	25
Total	27	51.92	25	48.08	52

Source: Opinion survey 2012

51.92% respondents are in the favorer of present provision of fines and penalty 48.08% of respondents are in against present fine and penalty 62.96% of tax experts are against but only 32% bankers are against the presents fine and penalty. In order to know reasons of unreasonable fine and penalty provision, another supplementary question was asked "If no please point out them?" views of respondents are listed below.

1. They are against to the interest of taxpayers
2. They are one sided
3. Unclear Law
4. It has no any strength to increase morality in taxpayer

4.16 Opinion towards the Problem Related to Income Tax, which are facing by Joint Venture Banks

To know the problems related to income tax, which are facing by Joint Venture banks a question was asked, "Do you think that the Joint venture Banks are facing the problem related to Income tax?" The responses received from respondents are presented below

Table no. 16(a)

Opinion towards Problem Related to Income Tax, which are Facing by Joint Venture Bank

Response	Yes		No		Total
	Number	%	Number	%	
Tax experts	18	60	12	40	30
Bankers	24	80	6	20	30
Total	24	70	18	30	60

Source: opinion survey 2012

The response of respondent clear that the Joint venture banks are facing problem related to income tax about 60% tax experts and 80% bankers have

positive opinion about it about 70% of response that the Joint venture banks are facing problem related to income tax.

From the above responses, it can be concluded that the joint venture banks are facing problem related to income tax. Another supplementary ranking question was asked to the respondents who replied that the joint venture banks are facing problem related to income tax. The question was "If yes, please rank the problems?" opinions of respondents are presented below.

Table No.16 (b)

Opinion towards the problems of JVBs to Income tax:

S.N.	Problems	Tax expert (point)	Bankers (point)	Total	%	Rank
1	Complicated legal provision	90	95	185	17.03	1 st
2	Less tax consciousness of Joint Venture bank.	112	119	231	21.27	4 th
3	Lengthy process of tax assessment	100	105	205	18.87	2 nd
4	Lack of identical accounting system	105	115	220	20.25	3 rd
5	Misuse of power by tax administrator	120	125	245	22.55	5 th
	Total			1086	100	

Source: Opinion survey 2012

From the above table it is cleared that complicated legal provision is the most important problem facing by Joint Venture bank related to income tax. Lengthy process of tax assessment is 2nd important problem facing by Joint venture banks related to income tax. The problems facing by Joint Venture Banks related to income tax are ranked below in order of preference according to respondent opinion.

1. Complicated legal provision.
2. Lengthy process of tax assessment.
3. Lack of identical accounting system.
4. Less tax consciousness of Joint Venture Bank.
5. Misuses of power by tax administrator.

4.17 Opinion towards the Complains of JVBs Banks

In order to know the complain of JVBs, a ranking question was asked, "What types of complain to JVBs?" The respondents were requested to rank their choice from 1st to 6th according to their preference to know the opinion of the respondents. The opinion of respondents is as follow:

Table No. 4.17
Opinion Towards the Complains of JVBs

S.N.	Complain	Point	%	Rank
1	About tax assessment	74	12.71	3
2	About behavior of tax administration	62	10.65	1
3	About fine and penalty	85	14.60	4
4	About provision including in income tax law	68	11.68	2
5	About tax incentives	128	21.99	5
6	Others	165	28.35	6
	Total	582	100	

Sources: Opinion Survey 2012

There was 93.33% response received from the respondents. This question was asked only tax expert. From the above table, it is cleared that behaviors of tax administration is the main complain of JVBs. Provision including income tax law is the second complain of JVBs. The complains are ranked below in order of preference.

1. About behavior of tax administration
2. About provision including in income tax law
3. About tax assessment.
4. About fines and penalties
5. About tax incentives
6. Others

4.18 Opinion towards the Loan loss Provision:

In order to know the effectiveness of loan loss provision a question was asked, "Do you think that loan loss provision is suitable?" The responses of the respondents are as follows"

Table no.4.18

Opinion towards the Suitability of Loan Loss Provision:

Response	Yes		No		Total
	Number	%	Number	%	
Tax experts	22	73.33	8	26.67	30
Bankers	23	76.67	7	46.67	30
Total	45	75	15	25	60

Source: Opinion survey 2012

75% of total respondents are in the favors of present loan loss provision among the total respondents 73.33% of tax experts and 76.67% of bankers are in the flavor of present loan loss provision. But 25% of total respondents are against it. Thus, the conclusion can be drawn out the present loan loss provision is suitable.

Another supplementary question was asked to the respondent who replied that present loan loss provision is not suitable. The question was "If no what your suggestions?" Suggestions or views of respondents are listed below.

1. Percentage of loan loss provision should be increase.
2. It is against the accrual basis of accounting.
3. It is against the prudential norms.

4.19 Options towards the Type of Facilities should the Government give the Bankers for generating Income tax.

To know the facilities should the government give the Banks for generating more income tax, the respondents were requested to rank their choice from 1 to 7 in according to their preference (most important in first and last important in 7th). The questions were "What types of facilities should the government give the banks for generating more income tax? Response received from respondents is tabulated as below.

Table 4.19
Opinion towards the Type of Facilities should the Government give the Bankers for Generating Income Tax.

S.N.	Facilities	Tax expert (point)	Bankers (point)	Total	%	Rank
1.	Tax holiday	100	104	204	12.86	4
2	Investment credit	65	40	105	6.62	1
3	Carry backward of losses	120	104	234	14.75	5
4	Carry forward of losses	105	85	190	11.97	2
5	Depreciation rate increasing	90	103	193	12.17	3
6	Tax rate deduction	125	128	253	15.95	6
7	Others	205	202	407	25.66	7
	Total			1586	100	

Source: Opinion survey 2012

From the above table it is cleared that investment credits is the most important facilities for generating more income tax from banks. Should the government give facilities to the bankers for generating more income tax are ranked below of preference according to respondent opinion.

1. Investment credit
2. Carry forward of losses

3. Depreciation rate increasing
4. Tax holiday
5. Tax rate deductions
6. Carry backward of losses
7. Others

In other reason some have said that the proper timely monitoring of Banks, timely solution of compliance made by banks and timely tax assessment.

To text the relation between opinion of tax expert and bankers about type of facilities, should the government give to the banks for generating more income tax, rank correlation coefficient is used

This is calculated below.

Here,

Let, R1 be the rank of tax expert opinion and R2 be the rank of banker's opinion.

Calculation of Rank correlation Coefficient

Facilities	R_1	R_2	$D(R_1 - R_2)$	D^2
Tax holiday	4	4	0	0
Investment credit	1	1	0	0
Carry backward of losses	5	6	-1	1
Carry forward of losses	3	2	1	1
Depreciation rate increasing	2	3	-1	1
Tax rate deduction	6	5	1	1
Others	7	7	0	0
Total				4

We know:

$$R=1-\frac{6\sum D^2}{n^3-n}$$

Where,

R=Rank correlation coefficient.

N= Number of ranks

$\sum D^2$ = Sum of square of rank difference

$$R=1-\frac{6 \times 4}{7^3 - 7}$$

$$R=1-0.0714$$

$$R=0.9286$$

There is the high degree of positive correlation between opinion of tax expert and bankers. It is proved that ranking of both groups are in the same way.

4.20 Opinion towards the Problems Relating to Income Tax Payment

To know the problems relating to income tax payment, which are not included in the above questions, the respondents were requested to list their opinion. The question was "If you have other problems relating to income tax payment, please out them?" It is opinion question responses received from respondents are listed below:

1. There is no hassle free assessment procedure.
2. Unfriendly behavior of tax authorities to the taxpayers.
3. System of reward and punishment are not effective.
4. Lack of coordination between tax office and other departments.
5. Variation of corporate tax rate.
6. Lack of simple and clear language in Income Tax Act and Rule.
7. Narrow tax base.
8. Lack of effectiveness of implementation of Act.
9. Lack of strong punishment to corrupt personnel.
10. Lack of effective controlling system of illegal business activity.

4. (C) Major Findings

On the basis of data presentation and analysis, some important findings can be drawn. The major findings of this research study are summarized as below.

1. Income tax has been considered as a suitable source for the collection of government revenue and mobilizing internal resources. It can be used as a positive instrument to boost government revenue collected, to develop the economic conditions of Nepalese people and promote distributive justice and to curve resource gap problem.
2. The source of government revenue is the composition of external revenue and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue is the composition of direct and indirect tax revenue.
3. Tax revenue is contributing more to total revenue than non-tax revenue. Tax revenue contributed more than 75% in the total revenue but non-tax revenue is contributed less than 25%. The average contribution of tax revenue was 80% and the average contributed of non-tax revenue was 20%. It is shown that tax revenue is a major source of government revenue.
4. Tax revenue is collected from various sources i.e. Custom Duties, Value Added Tax, Excise, Income Tax and other direct taxes. Among them Value Added Tax is in first position and Income Tax is in second position. Percentage of Value Added Tax is more than 30% and percentage of Income Tax is more than 21% to the total government revenue of the Nepal. Percentage of their contribution ratio increases in every year.
5. The contribution percentage of direct tax on government revenue and total tax revenue is also fluctuating in study period. Share of direct tax

on government revenue is 17% to 25% during the study period of ten years and share of direct tax on total tax revenue is 21% to 30% during the study period of ten years.

6. Nepalese income tax structure is formed by the combination of income tax from government corporation, public limited company, private limited company, individual firm and sole trading concern, other institutions, income from remuneration and investment income. Income tax collection has been increasing each and every fiscal year during the study period. Public Companies contributed highest percentage to the income tax collection among the other heads and Government Organization contributed lowest percentage to the income tax collection among the other during the study period.
7. Amount of Income tax collection from joint ventures banks is increasing every year but the percentage of growth rate of Income tax collection from JVBs is fluctuating in every year. In the beginning fiscal year 2001/02, Rs 600.43 million was collected from JVBs and in Fiscal year 2010/11, 2189.52 million is collected. Amount of contribution of JVBs to income tax collection is increasing rapidly in every year but the contribution ratio of income tax collection from JVBs to total income tax collection is decreasing during the study period.
8. During the whole study period Standard Charter Bank Ltd. is in the first position, NABIL and Himalayan Bank Ltd. is in second and third position respectively up to the fiscal year 2008/09. After fiscal year 2008/09, Nabil Bank is in first position, Standard Charter Bank is in second position and Everest Bank Limited is in the third position from the point of view of tax collection.
9. In fiscal year 2001/02, income tax collection from Joint Venture Bank is 1.19% of total government revenue and 1.53% of total tax revenue. The contribution percentage and amount of JVBs both have been fluctuating. In fiscal year 2010/11, income tax collection from JVBs is 1.10% of total government revenue and 1.27% of total tax revenue.

Average income tax collection from JVBs to total government revenue is 1% to 1.50% and average income tax collection from JVBs to total tax revenue is 1.50% to 2% during the study period.

10. In fiscal year 2001/02, income tax collection from JVBs is 6.74% of total income tax revenue. In fiscal year 2005/06, income tax collection from JVBs is Rs 1029.71 million, which is 9.21% of total income tax revenue. It is the highest percentage of contribution than in other fiscal years. It has fluctuated contributed ratio in the study period. In fiscal year 2010/11 income tax collection from JVBs is 5.20% of total income tax revenue. The contribution ratio of income tax collection from JVBs to total income tax is 5% to 10% on average on during the study period.
11. If income tax from JVBs is increased income tax and total tax revenue both are increased. They have positive correlation.

An opinion survey has been conducted in order to find out the contribution of JVBs in income tax, special facilities and benefit provided to banks by Income Tax Act 2058 and some other aspects of income tax paid by JVBs from the opinion survey of tax experts and Bankers the following findings have been drawn.

- ❖ Almost all respondents are aware of Income Tax System of Nepal.
- ❖ Income tax is a suitable source of mobilizing internal resources.
- ❖ The contribution of JVBs to the income tax revenue is not significant. Less number of such banks and Tax evasion is the main reason for unsatisfactory contribution of income tax from JVBs.
- ❖ Defective income tax policy, rules, regulation, inadequate government economic policy and lack of stable political condition are the reason for insufficient contribution of joint venture bank in income tax of Nepal.
- ❖ The income tax assessment procedure of JVBs is not sound and efficient.
- ❖ Unfair and weak administration is the main problem facing by JVBs.
- ❖ The provision of carry backward of loss is effective.

- ❖ Majority of JVBS have gone to the revenue tribunal for filling appeals. Expectation of illegal benefit by tax officer is the main reason go the revenue tribunal for filling appeals.
- ❖ Behaviors of tax administration, unclear provision including in income act and fine and penalty are the main complain of JVBS.
- ❖ Complicated legal provision, unfriendly behavior of the tax authorities, and lengthy process of tax assessment are the main problem related to income tax faced by Joint Venture Bank.
- ❖ 75% of total respondent are in the favor of present loan loss provision. It is proved that present loan loss provision is suitable.
- ❖ Investment tax credit is the most important facility for generating more income tax from banks.
- ❖ Special facilities and benefits provided to banks by Income Tax Act 2058 are not sufficient.
- ❖ Hassle free assessment procedure of income tax assessment is required to increase income tax.
- ❖ Income tax management in Nepal is not efficient enough due to lack of appropriate management system and serious managerial problems. Major problems which income tax management have been facing are misuse of power by tax demonstration, lack of motivated and trained employee, lengthy process of income tax assessment.

CHAPTER-FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

Among the different sources of government revenue, tax is the major source. We know that tax is a compulsory contribution made by taxpayer to the government according to the law. Taxpayers can't claim for direct benefit because of tax payment. Income tax occupied huge part of tax revenue. It is the most popular direct tax, which is received from business, investment and employment. Income tax is superior to other because it is imposed on the basis of paying capacity of taxpayers.

Generally bank is an institution that deals with money. A bank performs several financial, monetary and economic activities, which are vital for economic development of country. It is a monetary institutional vehicle for domestic resources in the fields of agriculture, trade, commerce etc. Banks are financial institution. They are providing loan and other banking services. They support the national economy. Most of the loan provided by banks is used for generating income. If income increases income tax and revenue of government also increases. In one way there is a direct relation-ship between the government revenue and the income earned by the people. If loan amount are used in consumption, it also support in increasing the income. Banks are significant taxpayer institutions. Tax payment by Banks makes significant impact in total revenue of government and total income tax.

A Joint venture is formed by way of two or more enterprises joining together for the purpose of carrying out a specific operation (industrial or commercial investments, production trade). Joint venture Banks are commercial banks formed by the joining of two are more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or trades to achieve mutually exchange of goods and services.

Nepal is adopting mixed economic policy with participation from both private and semi government organizations. According to mixed economic strategy and liberal economic policy, several Joint Venture Banks are operating simultaneously. The first joint venture bank of Nepal is Nepal Arab Bank Ltd (NABIL), which was established in 2041 B.S. under Commercial Bank Act 2031. Then, many other Joint Venture Banks were set up under the Commercial Bank Act 2031. Nepalese Joint Venture Banks should take initiation to search new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time the banks and financial institutions are offering very low interest rate on deposits. In this situation, Nepalese Joint Venture Banks are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial banks can inspire entrepreneurship, the banks should also consider nation's interests and government emphasis for the economic growth of the country by the development of industry and business and fulfill the objective of the profit making. Given below is the list of Joint Venture Banks now operating in the Nepal.

- ❖ Nepal Arab Bank Ltd. (NABIL, 2041)
- ❖ Standard Chartered Bank Nepal Ltd. (Previously Nepal Grind lays Bank Ltd)(2043)
- ❖ Himalayan Bank Ltd. (2049)
- ❖ Nepal State Bank of India Ltd (SBI, 2050)
- ❖ Nepal Bangladesh Bank Ltd. (2051)
- ❖ Everest Bank Ltd. (2051)

These Joint Venture Banks are profit-oriented entities. They provide various services to public business organizations and government. They must pay income tax out of their net profits. Income tax from different income is an important part of government revenue.

Government revenue is the composition of various items of tax revenue and non-tax revenue. Each of them plays a vital role in national operations and development but due to insufficiency of these revenues, it is being unable to operate socio-economic development programmers. There are interrelationship between resources mobilization and developed economy.

Amount of tax and non tax revenue both are increasing in every year, in the fiscal years 2001/02 amount of tax revenue was 39332.20 million and non tax revenue was 11113.40 million and in fiscal year 2010/11 these were 172755.20 million and 27064.30 million. Tax and non-tax revenue are increasing by 339.22% and 143.52% respectively in the study period. Contribution of the tax revenue is more than that of non-tax revenue. This study also showed that the average revenue collection through tax and non-tax revenue was 80.25% and 19.75% respectively.

Nepalese income tax structure is formed by combination of income tax from government corporation, public limited corporation, private limited corporation, individual and sole trading concern, other organization, tax on remuneration income, tax on investment income and others income. Income tax has been increasing in every fiscal year. The income tax contribution of Public Limited Corporation has occupied first position in total income tax revenue of Nepal. Contribution of government corporation in total income tax revenue of Nepal is insignificant in recent years through their contribution was significant up to 2004/05. Total income tax collection has been increasing in the study period.

Corporate tax occupied important part of income tax. JVBs are a part of corporate bodies. They are Joint with foreign banks, now there is six JVBs operate in nation.

They provide many types of modern banking services. By performing these activities, they make profits, since then they are called profit-oriented organization, they pay tax from profit according to income tax act. On the basis

of income tax payment standard charter Bank Ltd. was in the first position, NABIL Bank Ltd was in second position and Himalayan Bank Ltd was in third position up to the fiscal year 2007/08. After fiscal year 2007/08, Nabil Bank is in first position and Standard Chartered Bank is in second position, Himalayan Bank is in third position up to the fiscal year 2008/09. After fiscal year 2008/09, Everest Bank Limited is in third position and Himalayan Bank Limited is in fourth position. The realization of tax from joint venture banks in the fiscal year 2006/07 about Rs. 1303.28 million which contributed 1.49% in total government revenue and 1.83% in total tax revenue which is the highest percentage of contribution than other fiscal year. The contribution percentage of JVBs to total government revenue has been fluctuating and contribution of income tax collection from JVBs to total income tax collection is also fluctuated. In fiscal year 2001/02, contribution of JVBs to total income tax is 6.74% and fiscal year 2005/06, contribution is 9.42% of total income tax and in fiscal year 2010/11, contribution is 5.20% of total income tax.

Most of the respondents have said that tax evasion and ineffective implementation of the tax act are the reason of insignificant contribution of JVBs in income tax collection. They point out income tax assessment procedure of JVBs is not sound and efficient. Unfair and weak administration and vague law are reason of these.

Nepalese tax administration is unfair expectation of benefit by tax officer is an important reason to go the revenue tribunal for filling appeals. Tax refund procedure is not effective but most of the respondents are positive in the present fines and penalties provision. Some respondents are against these and they are said that this is unclear; against to the interest of tax payers and one sided.

Most of the JVBs are complaining behavior of tax administration is not so good provision including in income tax law is not clear. But 75% of respondents are in the favors of present loan loss provision and rests are against

it. Investment credit and carry forward of losses are necessary to Banks for generating more income tax and hassle free assessment procedure, friendly behaviors of tax authorities and co-ordination between tax office and other department are necessary for this.

5.2 Conclusion

Developing countries like Nepal are facing serious problems in the process of economic development. Lack of sufficient financial resources is the main constraint for the national economic development. A lot of funds are needed to meet the additional financial requirements for their growing development activities. Nepal has been suffering from capital shortage to accelerate the economic growth. Internal revenue mobilization plays vital role in the poor and developing country like ours to develop socio and economical environment of the nation. Nepalese government revenue has been increasing trend. Tax is a major part of government revenue and it has been also increasing trend. Income tax is the best and promising instrument of resources mobilization in Nepal. It is formed by combination of income tax from public enterprises, semi-public enterprises, private corporate bodies, individual remuneration and tax on interest. It has been fluctuating in study period. Sound tax administration and simple tax law assist in maximizing the tax revenue. Besides these, tax education and tax morality also plays important role in tax revenue collection.

According to mixed economic strategy and liberal policy, several Joint Venture Banks are operating simultaneously. Now there are six Joint Venture banks operate in the nation. Among these banks, standard chartered Bank Ltd was in first position in income tax payment and its income tax payment was very close to the average payment. But total contribution of JVBs in income tax is fluctuating. The realization of income tax from JVBs in the fiscal years 2006/07, 1.49% of the total government revenue and 1.83% of total tax revenue, which is highest percentage than in other fiscal year. Contribution of

income tax collection from JVBs to income tax collection is also fluctuated. In fiscal year 2005/06, income tax from JVBs is 9.42% of total income tax revenue; it is highest percentage than other fiscal years. There is positive relation between income tax from JVBs and tax revenue and income tax revenue of the government of Nepal. Most of the respondent response, that the contribution of JVBs to the income tax revenue is not significant. Tax evasion and ineffective implementation of the Tax Act is the main reason of non-significant contribution of JVBs to the income tax revenue. Income tax assessment procedure of JVBs is not sound and efficient because of unfair and weak administration and vague law and rules.

Most of the Joint venture banks are going to revenue tribunal for filling appeals. Expectations of illegal benefit by tax officer and unclear law are the reason to go the revenue tribunal for filling appeals. Most of them are the complained about behaviors of tax administration, provision including in income tax law and fine and penalties. Most of the JVBs are satisfied about the loan loss provision but it is against the accrual basis of accounting and prudential norms. Investment credits, carry forward of losses, depreciation rate increasing and hassle free assessment procedure are the demanded facility to bank. Complicated legal provision, loss tax consciousness of joint venture bank, lengthy process of tax assessment is the problems of joint venture banks to income tax.

5.3 Recommendations

On the basis of finding the study, the following recommendations are offered for the increasing the contributions of JVBs in income tax collection and solution of this income tax relate problems, which are facing by JVBs.

- ❖ The revenue of government is increasing and tax revenue has also increasing trend but contribution ratio of income tax has not increasing trend. To increase the contribution ratio of tax revenue, the tax base should be widened.
- ❖ Success of income tax system is highly depended upon the quality of income tax law. Tax law should be clear comprehensive and simple. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed. The following suggestions are made for the information of existing tax law.
- ❖ Out of total income tax revenue the contribution of JVBs is very low. So, to increase the contribution of JVBs, the focus should be given in the various taxes incentive programs with the help of sound tax planning.
- ❖ The language should be simple and clear and clear-cut provision should be made.
- ❖ The provision of fines, penalties and punishment should be increased to reduce the income tax evasion.
- ❖ Income Tax Act should be implemented effectively.
- ❖ Tax incentives and special facilities for JVBs should be provided for promoting such types of banks.

Joint ventures banks are well-established public corporation in Nepalese market. All their activities should be perfect and transparent. Therefore, their tax assessment and payment procedure should be perfect. To fulfill this requirement, following recommendations are made:

- Tax experts' professional should be employed in these banks.
- Proper tax education or training should be provided to employee.
- JVBS should be discouraged the expectation of illegal benefit by tax officer.
- ❖ Fines and penalty imposed should be basis of Justice and it should be implemented to increase morality in taxpayer.
- ❖ To collect more income tax from JVBS, it should be improved the behavior of tax administration.
- ❖ Loan loss provision should be improved because it is against the accrual basis of accounting and prudential norms.
- ❖ Government should provide investment credit to Banks for generating more income tax.
- ❖ The corporate tax rate for industrial enterprises as well as non-industrial business organizations should be same. Now banking sector is levied at the rate of 30-percentage tax where as general industrial sectors are levied 25% and special industries are imposed @ 20% only. Banking sector is also very important sector as other industries because banks are providing various financial services to industrials and other sectors for the smooth operation of their businesses. Therefore, it is appreciable to make the same corporate tax for both sectors either 30% or 25% from the view point of maximizing income tax realization 30% corporate tax is appropriate at present.
- ❖ Tax incentives also should be given to non-industrial sectors for more corporate tax collections tax incentives are a king of promoter for investment.
- ❖ Income tax administration is a ladder of implement the tax laws. Therefore effectives of income tax system depend upon the income tax administration. Income tax administration suffers from a number of hidden and interrelated problems, which have body, affected its productivity and image. Thus the following recommendations are made for improvement of income tax administration.

- ❖ All the tax personal should be given comprehensive training on various aspects of taxation on regular basis. Besides these, seminar, meeting, should be held on regular basis.
- ❖ Proper tax education should be provided to tax official.
- ❖ Political and other pressure should be avoided.
- ❖ Effective system of reward and punishment should be established.
- ❖ Strong punishment system should be maintained against corruption.
- ❖ Research and monitoring unit should be established for reducing the unhealthy practice in income tax administration.
- ❖ Tax personnel also should improve their behavior towards the taxpayers unfriendly behaviors is the main factor of discouragement and harassment that cause reducing voluntary compliance of tax, showing hesitation in tax paying feeling that income tax as a burden.
- ❖ Co-ordination should be maintained among tax policy, tax personnel and other department.
- ❖ Strong implementation of this Act is suggested.
- ❖ Behaviors of tax administration should be improved. Lastly, during the study period all JVBs are not suffering from loss. Their profit earning is increasing every year. Therefore the numbers of JVBs means increasing the contribution of JVBs in income tax collection. To increase the JVBs, we can provide additional facilities.
- ❖ The income tax policy should be formulated so as to match with the economic policy of the country.
- ❖ Timely revision and adjustment should be made in the matter of income tax policy.

5.4 Avenues for further Research:

Research is a major tool to generating new idea in any area. In the field of income tax, contribution of financial institutions is one of the interesting areas. There are several avenues for further research in the area of contribution of financial institution further study in the same field can be done. Therefore it is suggested to conduct further researches on following are as follows:

- ❖ Contribution of government banks to income tax collection.
- ❖ Contribution of Nepalese private banks to income tax collection.
- ❖ Contribution of financial institutions to income tax collection.
- ❖ Contribution of Development banks to income tax collections.
- ❖ Effect of increasing the numbers of JVBs in income tax collection.

The End

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