

CHAPTER ONE

INTRODUCTION

1.1 General Background

Tax means compulsory contribution from a person to the government to defray expenses incurred in the common interest of all and planning is the process of deciding about where to go and how to get there in advance by choosing the best from different alternatives so as to obtain the best result in future. In other word tax planning is the planning of future activities in a way that reduces the tax liability. Tax law provides certain concessions, rebates and allowances to tax payers in order to enhance a healthy business environment in the country. Tax planning is intended to take full advantages of those facilities. Tax planning can be defined as an arrangement of one's financial and economic affairs by taking complete legitimate benefits of all deductions, exemptions, allowance and rebate so that tax liability reduces to a minimum. Moreover it is the method of maximizing after tax profit, considering the various tax benefits including tax exemptions, deduction, concession, rebate and relief permissible under the act. In fact, tax planning analysis the effect of tax factor in a given and helps to select an alternatives which keeps the tax burden at minimum points by following legislative intentions. Method of tax planning may be short range or long range. Tax planning may be legitimate provide that it is within the framework of tax law. Colorable devices cannot be a part of tax planning and it is wrong to encourage or entertain the belief that it is honorable to avoid the payment of tax by resorting to dubious method. Thus tax planning implies full compliance of tax laws and meeting the tax obligation. The main focus of tax planning is taking full advantages of all the tax related exemption, rebate, deductions and allowances to minimize the tax liability. It is legal, ethical, and economic way of minimizing tax liability. It is a legitimate device of minimizing tax burden.

There are three common method of saving taxes viz. tax evasion, tax avoidance and tax planning. Tax evasion includes hiding income or concerning the

particulars of income or manipulating the accounts to overstate expenditure and other outgoing and understate incomes with a view to reducing profit and tax thus tax evasion is illegal, unethical and uneconomic as well it is illegal because the law does not permit to evade the tax.

Tax avoidance is a device which technically satisfies the requirement of the law but in fact it is not in accordance with the legislative intent. In addition tax avoidance is an attempt, to reduce incidence of tax as taking advantages of loopholes in tax law. Therefore tax avoidance is not durable and dependable because as a when the loopholes in tax law become public, the legislature steps into plug them furthermore it is a transaction entered in to with full legal backing with help of colorable device, defeating the genuine sprite of law twisting of facts, suppressing the legislative intent etc. hence it is also risk bearing because some time the law may be amended with respective effect, lastly we can say that tax avoidance is the reduction of existing law it is legally permissible but unethical. Tax planning neither tax avoidance nor tax evasion for the purpose of enhancing investment environment in a country, the government provides different types of facilities to the business organization. Such facilities include reduction in tax rate, providing tax holiday, investment allowance, depreciation facilities etc. tax planning means the scientific and systematic planning of such facilities so as to minimize tax liabilities or postponement of tax liability for the subsequent period. Tax planning is the planning of both the basic structure of the business and industry and its various projects from time to time in day to day activities for the maximization of benefits under the provision of present law of the nation. In Nepal income tax act, 2002 has reduced the scope for tax planning, to a great extent, by abolishing all the tax related provisions under industrial enterprise act, 1992 and other respective acts. The act has also widened the tax base by bringing in all the incomes into tax bracket. Tax planning can be divided into two heads:

(A) **Strategic or long-term tax planning** :- As per income tax Act, 2002 areas for strategic or long-term tax planning are as follows

1. Nature of business
2. Form of organization
3. Location
4. Capital structure decision
5. Size of business
6. Merging of business

(B) **Operational or short-term tax planning:-** As per income tax Act, 2002 areas for operational or short-term planning are as follows:

1. Acquisition of fixed assets
2. Repair and improvement cost
3. Pollution control cost
4. Research & development cost
5. Donation
6. Loss recovery
7. Stock valuation

1.2 Statement of Problem

The main problem is about a study on the application of tax planning in Nepal is due to over influence of tax evasion and tax avoidance, most of the organization are search different loopholes for the reduction of their tax burden. Another problem in Nepal is not positive towards the tax planning though; it is not illegal and immoral activity. Tax evasion is also a serious problem in developing countries like Nepal. Most of the business organization uses these activities to minimize the tax liability.

Therefore the main problem is the application of tax planning in Nepal though the government has given facilities of emotions for the tax payers. In addition, there is not proper evaluation of taxable incomes whether by government or by the tax payers. This study has been focused of dealing with the following issues:-

1. Are Nepalese business firms familiar with tax planning process?

2. Are Nepalese business firms involving in tax planning practices to obtain tax advantages?
3. How are business firm and government authorities contributing to enhance tax planning practices?

1.3 Objectives of the Study

Tax planning is the art of minimizing or postponing the payment of tax through the help of facilities mentioned in the tax laws. Besides tax planning ensures not only accrual of tax benefits within the quarters of law but also it ensures that obligation is properly discharged to avoid penal provision. The specific objectives of the study are

1. To analyze tax planning practices followed by Nepalese business firms.
2. To examine the contribution of tax payers as well as government and tax authorities for enhancing the tax planning.
3. To provide suggestion to Nepalese organization to use tax planning.

1.4 Significance of the Study

Tax planning is a branch of financial planning. It is one of the most important functions of management. It is to be done in advance with view point to minimizing or postponing the payment of tax within the frame work of tax laws. Tax planning is, thus neither tax evasion nor tax avoidance, instead it is a device through which tax payers takes advantages of various benefits, including exemptions and deductions under the provision of the existing tax laws. The study is, thus expected to benefit corporate planning, entrepreneurs, manager, taxation authorities and the academics.

If tax benefit is not claimed by a company by the time of assessment, the same cannot claim in future and the benefit would be lost forever. Therefore this study may provide comprehensive information to managers for strategic planning; project planning and operational planning that would help reduce tax liability within the legal framework. This study also concerned with appropriate suggestions for the estimation and correction of income tax

evasion, besides this study may also be helpful to economist, planners, students, researchers, teachers, tax officers, tax administration and government.

1.5 Limitation of Study

Every study cannot incorporate the subject matters of distinct scopes. In the same way this study has also the certain limitations which directly and indirectly affect the definite objective are as follows.

1. This study will be unable to planning all types of taxes in a particular basis.
2. Time and resources for the study will the major constraints.
3. Due to nature of study, it will be mainly based on qualitative data rather than quantitative data.
4. There is not good business environment maintain in Nepal till now so it will be also the major problem to collect reliable and valid as well as published data this study also cannot escape from this limitation.

1.7 Organization of Study

The research reports will be divided into five chapters, which are as follows:

Chapter 1: Introduction, it will contain background of the study, focus of the study, statement of the problem, objectives of the study, limitation of the study, importance of the study and organization of the study.

Chapter 2: Review of literature which contains conceptual framework of the study, review of foreign and Nepalese researcher, reports, article and books.

Chapter 3: Research methodology contains research design, population and sample, nature and sources of data, data gathering procedure, data period covered and analytical tools.

Chapter 4: Presentation and analysis includes theoretical analysis, data presentation and analysis and major finding of the study.

Chapter 5: Summary, conclusion and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Conceptual Framework

Mainly this chapter is devoted to the concept of related pattern of the study which would be useful to solve the research problem. It covers the theories and previous study on topic did by academicians and researchers within and outside the nations. This framework would be helpful for gathering various knowledge and experiences. So the conceptual framework contains following experience and background.

Most of the people don't wish to pay any more taxes than their obligations permit, legitimate and sometimes questionable tax minimization schemes or practices are adopted in order to reduce tax liability. People should have to pay some parts of his saving to the government. It is painful to the taxpayer due to this painfulness some persons have compared income tax with the death or delivery of a child. Since it is painful everyone wants to reduce tax liabilities as far as possible. There are different ways of reducing tax liabilities. They are tax evasion, tax avoidance, tax delinquency and tax planning as discussed below.

2.1.1 Tax Evasion

Tax evasion is the illegal way of reducing tax liability. "Action by the taxpayer which entails breaking the law and which moreover can be shown to have been taken with the intention of escaping payment of tax" (Goenka, 1985) is regarded as tax evasion. Tax evasion is illegal, unethical and uneconomic activity. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law doesn't permit to evade the tax. In the same way, it is uneconomic because it promotes black money. Tax evasion is done through different ways.

-) Under reporting of income.
-) Over reporting of expenses.

-) None reporting of income.
-) Maintaining multiple sets of accounts.
-) Making Operating business transactions under different names.
-) Fraudulent changes in account book.

2.1.2 Tax Avoidance

“Tax avoidance is the art of dodging tax without actually breaking the law” (Srinivas, 1989).

Tax avoidance is saving taxes without actually breaking the law. It is using the loopholes of the tax law. It is not illegal but unethical. The following are the criteria used by English Indian court to find out tax avoidance.

-) Use of colorable devices.
-) Defeating the genuine sprit of law.
-) Twisting of facts, talking only strict sprit of law and suppressing the legislative intent.

Methods of Tax Avoidance

According to Professor Dr. Agrawal, the important devices used in avoidance of taxes are as follows

-) Registering firms which are not genuine composed mainly of family members to reduce incidence of tax.
-) Diversion of income or assets to different taxable entities so that lower tax may apply.
-) Transfer of income to wife or child without adequate consideration.
-) Transfer of income or assets to nonresidents.
-) Payment of salaries, interest and other benefits to family members..
-) Expenses camouflage.
-) Formation of trust and other philanthropic type’s institutions which are exemption from income tax but whose benefits are derived by the members of family.

-) Purchase of such firms which have huge amounts be carried forward as losses. Such firms can be purchased at low prices but their losses can be set off against the profit of other entities etc.

Sec. 35 of income tax act. 2002 has defined tax avoidance as any arrangement, one of the purposes of which is the avoidance or reduction of tax liability. This act has made the provision against.

2.1.3 Tax Delinquency

It is also one way of reducing tax liabilities. In this case the liability is reduced in present value by deferring the payment. Although tax delinquency means the failure to pay tax due to lack of sufficient fund, it also covers nonpayment at the time of having fund. It is a temporary deceiving of tax in the long term.

2.1.4 Tax Planning

Tax planning is avoiding tax by availing the various relief's and concessions available in the law. Tax planning is legal, ethical and economic way to reducing the tax liability.

Under tax planning, tax law provides certain concession, rebates and allowances to tax payers in order to enhance a healthy environment in the country. For the purpose of enhancing the investment government provides different types of facilities to the business organization. Tax planning means use of these facilities given by the law to reduce the tax liability. It has the objectives of: (kadel, 2004)

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

2.1.5 Features of Tax Planning

The features of tax planning can be explained as follows: (poudyal, k. B.1998)

-) It is future oriented it concerned with activities to be undertaken in future.
-) It is legitimate device of minimizing tax burden.
-) It is legal, ethical and economic.
-) It is the genuine use of facilities provided in the tax law.
-) It establishes a good relationship between government and business community. It enhances a healthy environment in the country.

2.1.6 Methods of Tax Planning

Methods of tax planning depend upon the objective sought to be achieved. Broadly speaking tax planning may be short-range or long-range.

The short-range tax planning is applied to realize tax benefits under special circumstances for examples where total incomes goes up on account of huge capital gain in a year, tax incidence may be substantially reduced by resorting to other exemptions provided in this connection. It is an example of short-range tax planning.

The long range tax planning may not confer immediate tax benefits but it may be advantageous in long run. For example selection of nature of product, selection of location selection of sources of capital etc. (lal, B.B.1961)

2.1.7 Importance of Tax Planning

Tax is the payment of money by a person to the government because of the involvement of money in tax paying; it is burden to the tax payers so each and every tax payer wants to reduce it. The reduced liability on the other hand, induces the people or investor to do the extra investment work. Due to this reason government provides certain facilities to the people in tax planning. Tax planning has certain Importance (pandey, T.N., 1994:24-27)

-) Tax planning saves tax and increase profitability.

-) It avoids unnecessary worries, tension and administrative hassles.
-) It helps in using the facilities provide by the government.

2.1.8 Tax Management

Tax management is an all pervasive term which is different from tax planning. Tax management is the efficient, systematic and timely handling of tax matters to save time, talent, treasure and to avoid worry, tension, penalty and prosecution. It is not only taking advantages of various incentives but also keeping assesses alert as regards various dates or which different types of returns are to be field study. Tax manager has to see that all details to be submitted to the tax office are available before due date and returns are field so that penalty or penalty interest are avoided. It is the duty of tax manager to see that the assessor's case does not go by default. It is the maintenance of records and documents, filling of tax return in time and performing other tax related duties, efficiently (Birs,R.M. 1992)

2.1.9 Scope of Tax Planning Under Income Tax Act, 2002

Income Tax Act, 2002 has reduced the scope of tax planning, to a great extent, by abolishing all the tax related provisions under Industrial Enterprise Act, 1992 and other respective acts. We know that, there was great scope of tax planning in most of the countries of the world during 1950s to 1980s. Developed countries provided investment allowance and accelerated depreciation, where as developing countries like Nepal provided tax holiday for the purpose of promoting the investment. In Nepal, Industrial Enterprise Act, 1981 and Industrial Enterprise Act, 1992 provided many types of tax facilities to industrial sector.

The new Act had widened the tax base by bringing. In all the income into tax bracket. After 1990s the trend of tax system reversed. Now, there is fashion of reducing the tax facilities provided to the industrial sector. "Low rate wide net" is the main slogan of the current taxation system. Under this Act, tax planning can be divided into two heads.

) Strategic or long-term tax planning and

) Operational or short-term tax planning.

A. Strategic or Long Term Tax Planning

Strategic tax planning is normally for a longer period and it may not pay off immediately. As per ITA, 2002 areas for strategic or long term tax planning can be as follows:

1. Selection of Business

An entrepreneur can plan to minimize the tax by selecting those areas of business activities where the tax rate is minimized. As per Income Tax Act, 2002, different types of tax rates are applicable to different types of business activities. For example agricultural activities are tax free. Business activities that are related to industrial sector except tobacco and alcohol, i.e. special industry should pay the tax at 20%. The business related expert and construction of road, bridge, tunnel, ropeway, sky bridge, electricity generating and transmission etc. should pay only 20% taxes. Business related to insurance, finance & banking activity liquor & tobacco business and petroleum industry, should pay 30% tax from their income.

2. Selection of the Form of Organization

Business organizations can be organized in different form: sole proprietorship, partnership and company. Different types of tax facilities are provided to different forms of business organizations proprietorship firm get exemption facility but fixed tax rate is applicable to a company and partnership do not progressive tax rate is applicable to a company. A company should pay double taxation to the government, i.e. one from the profit of a company and another form divided received by an individual, where as a partnership should not pay double taxation, individual get medical facilities but companies do not individuals should follow cash basis accounting but a company should follow accrual system.

3. Selection of Location

As per income tax Act, 2002 Nepal has divided into four parts i.e. remote area, highly undeveloped, undeveloped and under developed. Tax planning can be used while selecting the location of the business. The industries established in backward areas get more facilities than the industries established in developed ones. Special industry established in highly undeveloped, undeveloped and underdeveloped area is taxed at 50%, 70% and 75% of the ordinary rate i.e.(20%). Otherwise applicable respectively for first 10 years including year of operation. Special industry established in specified in economic zone (SEZ) situated in mountainous district and hilly district is taxed as under.

First ten year tax free. After ten year 50% of tax rate otherwise applicable (forever) special industry established in SEZ situated other than the mentioned above is taxed as under.

First 5 year tax free after 5year 50% of the rate otherwise applicable (forever) similarly special industry established in remote area is exempt from tax for first 10 years for entity. Similarly provisions of remote area allowance for individual under income tax Act. 2002 are as follows.

Class Area	Exemption (Rs.)
A	30,000
B	24,000
C	18,000
D	12,000
E	6,000

IT industry established in specified in IT park is taxed at 75% of the rate otherwise applicable (i.e.20%).

4. Selection of the Product

For the proper selection of the nature of the product, the investor should take care of benefits given by the government. The investment made in hydropower generation, transmission or distribution and construction of infrastructure project should pay only 20% tax. Similarly 30% tax for petroleum product, bank and financial institution, general insurance companies and liquor and tobacco industries. On the other hand, loss recovery period for BOOT (Building of public physical infrastructure own operate and transfer to Nepal government) project is 12 years with carry forward provision, whereas general business loss can be carry forward up to next 7 years. Similarly loss of the entity engaged in petroleum business under petroleum Act. 2040 can be carrying forward up to next 12 years.

5. Selection of Sources of Capital

There are three sources of capital they are share capital, debenture or loan and retained earnings. The rewards are dividend, interest and capital gain respectively. In Nepal, the tax rates applicable to each of these sources of capital are different. Interest is taxed at 5% if loan is from natural persons. But dividend is taxed at 5% as final withholding. In case of capital gain, tax rates is 10% for the gain on the disposal of non-business chargeable assets related to natural persons where as the profit from disposal of other assets is taxed at normal rate of profit i.e. 20%, 30% and 25% respectively for industrial firms, financial firms and other respectively. Interest to a business organization is a deductible expense. But dividend and capital gain are not. Since income tax Act. 2002 also has favored debt making interest is deductible expenses. The firm can minimize tax by engaging more than other forms of capital.

6. Size of Business

Size of business can also be used for the purpose of tax planning. An individual having annual turnover not more than Rs. 20 lakh and annual turnover not more than Rs. 200,000 may elect himself as a small tax payer and required to pay tax depending upon the area in which business is conducted as follows metropolitan or sub metropolitan city Rs 5000 annual tax. Municipality Rs. 2,500 annual tax anywhere else in Nepal besides above mention places is Rs1, 500 annual taxes. The number of employee can also used for the purpose of tax planning. If special industry or IT industry providing direct employment to the 300 or more Nepalese citizen for the whole year taxed at 90% of the rate otherwise applicable (i.e.20%). Special industry or IT industry providing direct employment to the 1200 or more Nepalese citizen for the whole year is taxed at 80% of the rate (I.e.20%). Special or IT industry providing employment to the 100 Nepalese citizen including 33% women or downtrodden people is taxed at 80% of the rate otherwise applicable.

7. Merging of Business

Inclusion of non-industrial unit in industrial unit can also be helpful in minimizing tax. Industrial units (except liquors and tobacco) pay tax @ 20% where as non-industrial units (i.e., trading company) pay tax @ 25% thus, merging of trading company in industrial company (forward integration) reduced the tax liability. Similarly, merging of loss making units is also helpful in tax planning. Hence, the losses of loss making unit can be adjusted with the profit of profit making units.

B. Operational or Short Term Tax Planning

As per Income Tax Act, 2002 areas for operational or short-term planning can be as follows:

1. Acquisition of Fixed Assets

Fixed assets like plant and machinery, vehicle, building etc. can be acquired by minimizing the tax liability with the help of tax planning. There are two

alternatives to get fixed assets. They are buying and leasing in case of purchasing the organization can save tax by way of depreciation, whereas in case of leasing the tax can be saved by way of lease rent. If assets are purchase through borrowing the interest on capital can be deducted as expenditure. The organization should evaluate both of these alternatives while acquiring fixed assets.

2. Repair and Maintenance Cost

Income Tax Act, 2002 has allowed repair and maintenance cost up to 7% of depreciation basis. Taxpayers should plan these expenses in such a manner so that maximization deduction is possible. The unabsorbed repairs can be capitalized and depreciated from the next year. The organization can see tax implication in maxing repair and maintenance cost due to inflation factor. It means present value of future recovery will be less than value of recovery (sec. 16).

3. Pollution Control Cost

Income Tax Act, 2002 has allowed to deduct the expenses related to purchasing or installing of pollution control device. However, there is limitation in this regard. Only 50% of the adjusted taxable income of all the business can be deducted in one year and the remaining amount can be capitalized. Here, adjusted taxable income means income before deducting donation, pollution control expenses and research and development expenses. While making such expenditure, it would be better to keep this within 50% of the adjusted taxable income. Inflation factor reduces the present value of future recovery in this case also (Sec. 17).

4. Research and Development Expenses

As in the case of pollution control expenditure, research and development expenses also are allowed by Income Tax Act, 2002. The limit of allowable expenditure is 50% of the adjusted taxable income, it can be capitalized. Because of the capitalization, the present value of expenditure is reduced and

so the tax can be planned in making this expenditure also. Such research and development expenses can be made by the tax payer itself or through universities (sec. 18).

5. Stock Valuation System

As per Income Tax Act, 2002 cost of trading stock can be deducted. For the purpose of finding out the values of closing stock price or market price whichever is less is allowed. For costing purpose, two methods are allowed by Income Tax Act, 2002. In case of cash accounting system, price cost method should be adopted whereas in case of accrual accounting system the absorption cost method is permitted. It cost of stock cannot be determined; stock can be valued either in FIFO or weighed average method. From tax angle, weighted average method is more beneficial as it produces lower profits and there by decrease the tax liability (Sec. 15).

6. Donation

A taxpayer can deduct the donation made to tax exempt organization in any income year; the limit of such donation should be actual amount donated or 1, 00,000 or 5% of the adjusted taxable net profits. By notifying in Gazette, the government can allow unlimited amount of donation to certain institutions. As announced in finance ordinance, 2003, the donation made to Lumbini Development Trust do not contributed to their two trusts. A taxpayer can plan the amount of donation to minimize the tax burden (Sec. 12).

7. Remuneration of Employee

Income Tax Act, 2002 has made taxable most of the allowances that were not taxable under Income Tax Act, 1974. However, there are still some facilities given to employees by the new act under which the tax planning can be made. Such facilities are up to Rs 30,000, remote area allowance, meal and Tiffin expenses, contribution to retirement fund, medical expenses or medical insurance cost of up to Rs 750, vehicle facility of up to 0.5 % and house rent facility of 2% of the salary of the employees. The organization can see all these

facilities while restructuring the remuneration of the employees. If husband and wife of any person are employed, it will be beneficial to file separate return. If only one person of the family is earning income, the joint return is beneficial (Rules 13, 13(2), 20, 21 of the Income Tax Rules, 2003 and Sec. 27 of the Income Tax Act, 2002).

2.1.11 Tax Reform in Developing Countries

Beginning of the 1970s, a number of developing countries tried to radically reform their tax system. What can we learn from these experiences with tax reform? How can any lessons learned be made useful to other countries also on the road to tax reform? The World Bank has studied there question for several years now and found the fruits of this research. The goal of tax reform project has been to obtain a better understanding of how developing countries can improve the performance of their tax system.

As the World Bank has become increasingly active in structural adjustment and other policy based lending developing countries, growing demand have been placed on it to suggest, and sometimes the experience of eight developing countries that have undergone, and in some reform. Equal attention has been given to the process of tax form how it is implemented, and the substance or results of reform result efforts. Throughout the focus in a practical rather than theoretical aspect of tax reforms. Poorly designed or poorly functioning tax systems variety of problems in developing countries (Kandel, P.R., 2007: 335).

- a. Fiscal imbalances and insufficient tax revenue.
- b. Distortion in resources allocation that can reduce economic welfare and growth.
- c. Inadequate provision for equality.
- d. Poor administration of taxes.
- e. Tradeoffs and interaction in redesigning tax systems.

2.1.12 Process of Tax Reform

It is one thing to devise a model blue print for tax reform. It is quite to have it ready when the moment is ripe for reform and to apply another to have it ready when the moment is ripe for reform and to apply it successfully. A number of the country studies illuminate the important steps that should guide the reform process. It is important, for example, to have the appropriate policy measures “on the shelf” before a fiscal crisis strikes in order to forestall the adoption of ill advised tax reforms. Successful tax reform efforts also require detailed knowledge of the defect of current system, especially a sense of who pays taxes at his industry, firm and household level, as well as a feeling for how the distribution of tax burden would be affected by alternative tax measures that attempt to improve matters. Reforms are also more likely to be successfully adopted if local policy makers are actively involved in their design and implementation and reform results in the certain of a care of local tax experts who identify with, and assume responsibility for the success of the reform. While successfully tax reforms always invest in better tax administration, in the end reformed measures must be compatible with existing tax administration capacities and tax planning. (Thapa, G.B., 2002:12)

2.2 Review of literature

This is the dissertation especially to a study on the applicability of tax planning in Nepal I.e. this study is concentrated with the tax planning and its applicability in Nepalese industries. Only few books, dissertations, articles and reports were studied and have been review for performing this research. Many dissertations presented in T.U., articles and reports have described the income tax law, provisions structure of income tax problem and prospects of income tax and path for reform of income tax but almost not one have been found in respect of tax planning aspect. These studies have not been studying in the root of income tax, tax planning i.e. tax incentives. Before understanding and considering tax planning aspect and tax incentives provision and applicability

of tax incentives and tax planning all the remaining studies are incomplete regarding the income tax.

2.2.1 Review of Articles

There are many books, research reports and articles have been written and published in aspect of income taxation; very few and little portion of books of income tax have give room for income tax management. But all the books of income tax have written little of more about income tax management. We can find many articles written in income tax administration and talking little about income tax. Little of them are concerned with income tax management. Some of the articles and studies on taxation are presented below.

Puspa Kadel (2001) has published an article titled “Draft of income tax act-2001, critical analysis” on journal “Rajoshow”. He has criticized the ITA 2001 on several grounds. They are exemption of agricultural income from income tax exports duties levied on exports, inequality between different capitals eared income (i.e. tax on interest, dividend and capital gain), and withdrawal of exemption provision and adjustment for inflation. He further criticized the Act. For the provision on income tax from exports as 0.5% of total export because it is not good choice of income tax base.

An article “Draft of income tax system and its reform in Nepal, as descriptive way”, written by “Govinda Bahadur Thapa (2001). In his article he has described the tax system, features of tax, and causes of reform of tax and areas of reform. He has criticized the tax system as too many and too high rates. Multiple objectives of taxes scheduler rather global approach to income taxation, too much income brackets and high progressively complicates and ambiguous tax law. He further added, ‘tax was levied at the manufacturing rather than retail stage which added to the production cost. Too many tax incentives and tax holidays narrowed the tax base and revenue collection had to be increased from that raising of tax rates. But the high tax rates encouraged tax avoidance and evasion and also gave birth to the unaccounted economy.’

He has identified the areas for reform the tax system in Nepal. They are; low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deductions and tax holidays to broad tax base few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to saving and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobile, petroleum and surcharge and additional duty system to make the tax system simple, making the tax system internationally compatible to attract foreign investment.

Revenue consultation committee chaired by Bhoj Raj Ghimire, MOf/NG Nepal, 2001, has published a report on 2001; the committee has studied the overall taxation situation of Nepal. This report has suggested widening the income tax base by including all kinds of tax payers and income. It has also suggested finding out the tax payers of new sector for this. The report suggested making the Act. More transparent and clear in order to attract foreign and domestic investors, for income taxation self assessment was fully recommended. The report has suggested that the exemption limit should be according to the purchasing power and inflation. It has also suggested implementing account base VAT more effectively for small tax payers having up to 2 million, tax collection should be used on their sell and purchase description.

An article titled “Soyam Kar Nirdharan Ra Aaya Biberan” written by Abinath Rai (Feb., 2006) was published in journal “Rajoshowo”. In his article he has described about the self assessment procedure of income tax provided by income tax Act. 2002 A.D. under this law every assessment will be treated as self assessment where person files return of income tax for an income year. An assessment is as made on the due date for filing the return of the tax payable by the person for the year and in the amount shown in the return and amount of that tax still be paid for the year being the amount shown in the return. He has mentioned about the types of income tax return, due date of filling income tax

return, structure of income tax return, financial auditing and tax auditing. And finally he concludes that to get the target percentage of GDP as assumed by tenth five year plan we should improve the existing income tax system and it is necessary to modernize the tax administration to implement income tax law effectively.

Surendra M. Trepthati. (jan-feb, 2006) has published an article titled “Aadhunik Kar Prasasan Ka Bibidh Pacchhya Haru” on journal “Rajoshow”. He has overviewed and explained the different aspect of income tax administration in his article. He further mentioned that; tax policy, tax law, tax objective or administration , organization capable manpower, transparency, self assessment of income and its inspection, tax examination and research, up to date records of tax payers and the use of information technology, physical facilities etc. are the different aspects of tax administration.

He has analyzed all the above mentioned aspects of modern tax administration detailed and he concludes that the modern tax administration is not functioning well because there is the lack of full implementation of tax law, lack of transparency in both tax payers and administrator, lack of adequate tax officers, frequent change in policy and laws lack of adequate training to people working at tax offices etc.

He further concludes that, although there exist some defects in modern tax administration, it is improving its way of functioning, and he is hopeful to see the well functioning tax administration in near future.

2.2.2 Review of Related Thesis

Agrawals study (1978) on “Resource Mobilization for Development; the Reform of Income Tax in Nepal” analyzed the dysfunctional aspect of the Nepalese income tax system. In this respect, he found that inadequate planning of tax policies, lack of stability in tax policies, wide spared discretionary power provided by tax law to tax authorities, poor tax administration capability and lack of tax consciousness among the Nepalese people, were the major drawbacks of the Nepalese tax system. In this respect, Agrawal noted “Recent

attempt at modernization of tax administration are the steps in the right direction. However such attempts have been only drops in the ocean of mis-administered tax system. The revenue from income tax alone can be increased substantially by modernization and streamlining the tax administration”.

Agrawal’s study (1984) on “Direct Tax Reform in Nepal” made the following suggestions regarding the administrative aspect :

- Effective tax payer information system should be developed.
- Political and undesirable pressure in tax administration should be minimized, that will help to improve tax administration capacity.
- Income tax exemption limit should be tied-up with the cost of living index.
- Income tax law and rules should be amended as a when needed to plug loopholes.
- Grant tax incentives for the promotion of corporate sector.
- Maintain up to date tax payer register.

Parameshwor pant (1996) has presented a thesis named “A Study on Income Tax Management in Nepal”. In his research he has analyzed the situation of income tax management in Nepal at that time. He has also studied the administrative aspect of income tax in Nepal. In his research work we get the poor situation of tax administration, misuse of power by tax officers, lack of transparency between tax payers and tax officers etc. and he further concludes that large improvement should be done in income tax administration to develop effective income tax system in Nepal. This research study was based on income tax Act 1974. We can get the former scenario of income tax management before income tax Act 2002A.D.

Poudel, (1997) in his thesis “Corporate Tax Planning Nepal” has tried to make an overview and conclusion supporting to the objectives, research methodology, findings and suggestions as follows.

Objectives:

- To examine the corporate tax structure in Nepal.
- To examine the implications of tax factor in seeking the best alternative strategy in different aspects of strategic planning.
- To analyze impact of corporate tax on managerial decision relating to the different aspects of project planning.
- To examine corporate tax planning in respect of operational planning.
- To investigate tax planning practices being follow in respect of strategic planning, project planning and operational planning by Nepalese companies.
- To offer suggestion for improvement in corporate tax laws which have direct bearing on the corporate tax planning?

This study provides comprehensive information to managers for strategic planning; project planning and operational planning that would help to reduce tax liability within the legal framework. This study thus expected to benefit corporate planners, entrepreneurs, taxation authorities and the academics.

Scope and Methodology

As stated earlier, this study examiner tax implications in strategic planning, project planning and operational by companies in Nepal. The study also outlines tax panning practices in decision relating to these three aspects of corporate planning. It is the study of corporate tax planning based on the information collected from 30 samples of manufacturing companies registered under companies Act, 1964 of Nepal. The sample companies include 14 government companies and 16 private sector public limited companies.

This study is based on primary and secondary dat. Primary data has been collected mainly through questionnaire and personal interviews. Secondary data relate to fixed assets, depreciation, capital structure, profit, provision for

taxes etc. published by Nepal stock exchange ltd. Annual reports of the ministry finance department of industries, economic newspapers and journals.

Findings

The selection of tax base is an important constituent of corporate tax structure. The different tax bases are gross assets, business expenditure, value added, cash flow and book profit. Government of Nepal has also followed book profit as the tax base for the purpose of corporate income tax.

Another important constituent of corporate tax structure is the tax rate. The corporate tax structure is the tax rate. The corporate tax structure in Nepal has undergone a substantial change over the years prior to 1986-87, tax rate structure was same for both individuals and companies (including government companies and public limited companies in the private sector), and the progressive tax rate structure was replaced by flat rate system. It was extended to private limited companies also in 1993-94. Another important featured of corporate tax in Nepal is the lowering down of tax rate from 60% to 67% (on taxable income above Rs. 130,000) in 1982-83 to 23.33%(flat rate) in 1994-95. Further there are different flat rates for different types of companies thus, while no-Industrial companies are taxed at a flat rate of 33%, industrial companies are taxed at the rate of 28 further, if a company is listed in Nepal stock exchange, the tax rate is reduced by 5%. The government of Nepal has thus rationalized the corporate tax rate compatible with many other low tax rate countries. In fact Nepal has fallen in line with the general international trend of lowering down the corporate tax rate.

Suggestions

The foregoing discussion shows that Nepalese companies in general have been taking advantage of the tax benefits in their strategic planning, project planning and operational planning decisions. However, these are still a number of companies which have failed to do so either because these companies did not have efficient tax planning system or because they were the loss-making companies and therefore, could not get the advantage to tax benefits. Besides,

there are some tax provision under income tax act and industrial enterprises act which require amendments. An attempt is, therefore made here to offer some important suggestions which have emerged from this study. These are as follows:

- Export-oriented industrial companies should also be entitled to partial exemption of export earnings
- It is suggested that the tax payer should pay the unpaid tax along with interest similarly, if the refunded is to be made to the taxpayer, it should also be paid along with interest if company losses the case, it is required to pay the amount of unpaid tax only.
- It is recommended that there should be a separate tax section headed by a tax executive under the finance department particularly in large and medium companies to discharge all functions relating to tax management, including tax planning.
- It is suggested that there should not be discrimination on the name of tax liability.
- Use of best judgment assessment (BTA) should be effective by tax officers

pusrpa Raj kandel (2005) has presented the Ph.D. thesis entitled “Corporate Tax System and investment behavior in Nepal”. He undertook the research work to find out the problems relating to corporate tax which blocks the development of private investments. The main objectives of his study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain, dividend, tax and interest tax etc. based on their impact on tax burden.

Ramesh Sigdal has presented a thesis entitled “A Study on Income Tax Management in Nepal” in 2006. In his research work he has tried to indentify the current situation of income tax management in Nepal. He has analyzed the ratio of income tax to total revenue of Nepal. He further mentioned that the

ratio of income tax to total revenue is not satisfactory and he recommended that the administration should try to increase effective public participation to minimize the income tax evasion. According to him applying the following suggestions income tax evasion can be minimized:

- Increase the administrative efforts.
- Enforce heavy fine s and penalties.
- Minimize illegal business activities.
- Revenue department should also manage properly to carry out the spying activities to find out the income tax evader. It should be co-ordinate with special policy force and revenue investigation center.

Karki, Bidur (2007) in his thesis “Theory and Practice of Tax Planning in Nepal” has tried to make an overview and conclusion supporting to the objective, research methodology, finding and suggestions as follows:

1. Objectives

- a. To analyze the existing problems of income tax Act, 2002, with respect to administration.
- b. To study the concept of tax planning.
- c. To examine the applicability of tax planning in Nepal.
- d. To provide suggestions to Nepalese companies/business houses to use tax planning based on the above study.

2. Methodology

This study is mainly concerned on the theory and practice of tax planning in Nepal. It is the study of corporate tax planning based on the information collected from trading companies. This study also includes 5 finance company and 5 insurance companies.

This study is based on primary and secondary data. Primary data has been collected mainly through questionnaire and interview, field study

visit, and mailing information of the respondents. Secondary data related to fixed assets, depreciation, capital structure, profit, provision for taxes etc. published by Nepal stock exchange ltd. Annual reports of the ministry of finance, department of industries, economic newspapers and journals.

3. Findings

- a. The government has provided various facilities to tax payers on the law but government has not been able to implement that system of law in practical life.
- b. Existing nature of taxable revenue in Nepal has still been in poor condition. It means that income tax 2002 has not been able to collect enough revenue according to the plan made on theory.
- c. Even though taxpayers have accepted the application of the planning in Nepal, the tax payers have not been regular for the proper utilization of tax planning.
- d. There is a vast gap between theory and practice of tax planning in Nepal. No work could be implemented recording to plan and policies.
- e. Tax payers feel the difficulties to complete the criteria of tax planning.

4. Suggestions

Tax rate should be different for resident and non-resident companies like India, Germany, and Belgium etc. tax rebate to non-industrial company's set-up in industrially back ward areas. Export oriented industrial companies should be entitled to partial exemption of export earnings. Use of best judgment assessment (BTA) should be effective by tax officers.

It is suggested that there should not be discrimination on the name of tax liability.

Basnet (2008) has analyze property tax must adopt tax plan and policies. Central level has to the give authority to local level to make empowerment, act and rule must be improved and consider time value of money, new valuation of house and land tax rate.

Chhetri Ram (2009) has analyzed local tax, grants, fees, and penalties are the pillars of financing local government and compose more than two third of total revenue composition so tax planning should conduct under the Act. To prevent tax avoidance and tax evasion.

Timsina, (2010) in his thesis “Tax Evasion in Nepal” has tried to explain about the tax evasion behavior of tax payers. People in developing countries like Nepal tend to greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem of tax evasion. Because of this, resources have not been mobilized efficiently and resource gap is increasing each year in Nepal public finance. He has mentioned the following objectives and methodology for specific findings and recommendations.

1. Objectives:

- a) To analyze the structure of income tax in Nepal.
- b) To estimate the volume of income tax evasion in Nepal
- c) To draw suggestion for the elimination of income tax evasion in Nepal.

2. Findings:

- a. There is a serious problem of financial resources gap in Nepalese economy. It needs to be controlled in time otherwise it may create a greater problem in national economy.
- b. Income tax evasion has decreasing trend in Nepal. In an average 24.70% income tax evasion in Nepal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

For the proper evaluation of the research problem, research methodology is very essential to any researcher. Research methodology generalizes the way of solving the research problem thoroughly and systematically. Therefore, research methodology is used for the achievement of the objectives of the study.

Research methodology is the combination of two words research and methodology. Research means a careful investigation or inquiry specially, through search for new facts in branch of knowledge. It is systematic and organizes effort to inquire about specific problems that need answer. Methodology is a systematic rules and procedures up to on which research is based.

3.2 Research Design

Research design is the specification of method and procedure for acquiring the information needed. It deals with what information is to be collected from which source and by what procedures. If research design is good, it ensures that the information obtain is relevant to the research question and collected by objective and economic procedures. To achieve the specific objective of the study, descriptive and analytical research has been carried out in terms of applicability of tax planning in Nepalese organizations. For an empirical investigation an opinion of study has been conducted. Most of the data and information of the study were concerned with the opinion, experience and performance of the respondents. After the collection of data, this study analyzed and described its own procedures. Research design, thus is overall frame work for the achievement of the goals and objectives of the research.

3.3 Nature and Sources of Data

Mainly the primary sources of data and information have been used in this research. In addition, secondary sources of data have rarely been used in some extent. Some important sources of the primary data are opinion survey through questionnaire and interview, field visit and mailing information of the respondents. The sources of data can be divided into two parts:-

Primary sources

Primary data are those fresh and original data which are collected and recorded by the researcher. Unpublished data from field study by questionnaire, mail, direct visit etc. are primary source. A set of some related questions were developed and distributed to the respondents in order to make accurate and actualization.

Secondary sources

Published data like articles, news, thesis books are secondary sources. The major source of secondary data for the study are:

-) Published journals from Nepal Rastra Bank.
-) Published report of IRD and its website (www.IRD.gov.np)
-) Published document of ministry of finance like budget speech, economy survey etc.
-) Other related data records like economic journal, tax journal, business age, income tax Act, 2002 and rules 2003,2006, industrial enterprises Act 1992, Karobar dainik, Kantipur, the rising Nepal, Himalayan Times, Kathmandu post, Gorkhapatra and website etc.

3.4 Population and Sample

It is very difficult task to study about the universe. In other words an individual can't study about the universe. Therefore sample study had been done through 50 respondents of tax officers, policy makers, tax experts, tax administrators and tax planner. They are 15, from commercial bank 15, from production and

fertilization companies, 10 from trading company and 10 from insurance company.

3.5 Procedure of Data Collection

A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. Some questionnaire was administered in personal meeting with the respondents and additional information was also collected from interview of the respondents and also data are collected from secondary sources.

3.6 Procedures of Data Presentation and Analysis

The result of each and every question out of the questionnaire was submitted respectively. Similarly they were ranked and planned in order by editing and coding. The view of the respondents about the questions was presented in respective orders so that the analysis was fully based on the respondents. The cumulative result of each question was described in the respondent language. The main priority was given to the highest support and decision of respondents. The supports of the respondents were collected in the numerical form as well as in the language form. Finally, the conclusion and suggestion of the study were presented in summary.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This empirical study is based on an opinion questionnaire survey which was distributed to a total of 50 respondents from tax experts, policy makers, tax administrators, auditors and tax payers. In order to know about their opinions regarding various aspects of tax planning behaviors and the areas for its reform. This chapter is the main body of the study, which answers the research problems for obtaining the specific goals of the research. It helps for summarizing, concluding and finding of the research.

4.2 Implementation Scenario of Tax Planning in Nepal

In accordance with the income tax Act, 2002, Income tax rules, 2003, industrial enterprises Act, 1992 and annual budgets it was implemented as the replacement or improvement of tax facilities provided by government to the profit motive organization.

The most significant points of its implementation are to increase the tax sector and habits of pay tax to the government. It is the plan of government but to decrease payment of tax to use many types of facilities that are provided by government. It can be seen and analysis the applicability of tax planning in Nepal as following.

4.3 Sample Analysis of Measurement

This measurement deals with the result obtained from various sector of the respondents. It explains about the view and specific conclusion of the companies. The samples of 50 respondents were observed with the help of questionnaire and personal interview for the following results.

4.4 Information About The Organization

Out of 50 respondents 15 were accountants 15, 15 of them were policy makers, 10 were proprietors, 5 managers and 5 were auditors they are from Mfg.

Company, trading company, commercial bank and insurance company. Most of had at least three years of experience in taxation field. This study focuses on tax planning reform to be done by the state level or policy making level as well as from private sectors for improving their tax behavior towards planning of tax rather than tax evasion and tax avoidance so 20 respondents are taken from government sectors and 30 from private sector to harmonize their problems regarding to the tax planning. They filled the questionnaire by personal contracts.

3.5 Knowledge About Tax Planning

Most of the respondents from policy makers were familiar to the term tax planning. From private sectors also they responded they were familiar to tax planning; however most of them thought that tax planning means the regular payment of tax to the government, not about how to reduce tax liability. The result has been presented in the following table.

Table No. 4. 1

Knowledge about Tax Planning

S.N.	Options	No. of respondents	Ranking position	% of respondents
1	Yes	40	First	80
2	No	10	Second	20
Total		50		100

Source: Field Study, June 2012

From the above table No. 4.1, 40 respondents or 80% of the respondents have some sort of knowledge about tax planning. Twenty respondents from government officer are very familiar toward the tax planning. It is found that the accountants or staffs in the large organization are familiar about tax planning and they are also utilizing the facilities provided by the Act as far as possible. They used to audit their statement internally and externally by the

expert auditors. However, they said that there was the lack of incentives to make plan and tax incentives provided by government.

However, 20% of the respondents were unfamiliar about tax planning. Most of them were from small firm's specially trading sector. They understood that the tax planning was the regular payment of tax to the government without any cheating. They used to take some sort of facilities of tax planning. According to their view, they try to minimize tax liabilities by collecting benefits as less as possible from the customers. They express their views on the favor of customer satisfactions indeed, they said that they cheat the government but give benefits to the customers by charging low price.

4.6 Reasons For Not Familiarities With Concept of Tax Planning

To know the reason why they are not familiar with tax planning concept, the responses given by the respondents have been tabulated as follows:

Table No. 4. 2

Reasons For Not Application for Tax planning

S.N.	Options	No. of Res.	Ranking Position	% of Res.
1	It is hard to follow the method of tax planning	15	1 st	30
2	concessions & rebates provided are not cleared	14	2 nd	28
3	It is easy to follow tax evasion and tax avoidance than tax planning	11	3 rd	22
4	Lack of qualified manpower	10	4 th	20
5	Other	-	-	-
Total		50	-	100

Source: Field Study, June 2012

From the table No. 4.2 it is observed that the main cause of not application of tax planning was due to the hardness to follow the method of tax planning 30% of respondents result has been obtained on it. 28% of respondents result was obtained in unclear concessions and rebates provided by the government. There is easy to follow tax evasion and tax avoidance rather than tax planning in Nepal was resulted 22%. Similarly 20% respondents were voted in lack of qualified manpower for the proper application of tax planning in their companies.

As a result obtained, tax planning was very hard process to follow the ordinary people. It needs more updated knowledge about tax laws, rules and regulation. In addition tax concessions rebate were not cleared and very difficult to take benefits. It needs long-term vision by the experts. There was the lack of strong administration of tax so, some respondents felt easy to take advantage by using traditional ways i.e. tax evasion and tax avoidance rather than tax planning activity. It needs experts and qualified manpower however it was lacking in Nepal.

4.7 What Factors should be Considered to Make Tax Planning Practicable?

In their overall ranking about the factors that were to be considered has been presented in the following table. This problem is evaluated based on the ranking position and percentage basis.

Table No. 4.3**Factors to be Considered to Make Tax Planning Practicable**

S.N.	Options	No. of respondents	Ranking position	Ranking %
1.	Simplifying income tax law.	15	1 st	30
2.	Reforming tax structure.	13	2 nd	26
3.	Promoting the social value of tax payers who pay the tax honestly.	9	3 rd	18
4.	Increasing administrative efficiency.	6	4 th	12
5.	Covering all the loopholes in income tax law.	3	5 th	6
6.	Decreasing corruption practices.	2	6 th	4
7.	Penalizing tax evader and tax avoider.	2	6 th	4
8.	Increasing taxpaying habit of the people.	-	-	-
9.	Implementing one window policy for all allowance	-	-	-
Total		50	-	100

Source: Field Study, June 2012

From the above table it was observed that 30% respondents said that simplifying income tax law was needed to make tax planning practicable. The second preference was given for reforming tax structure. Reform in income tax Act, In income tax policies, reform in income tax law, reform in income tax

administration, reform in corporate were indispensable. Similarly 18% of respondents suggested promoting or enhancing the social value of tax payers who pay the tax honestly and timely. Fourth position was obtained about to increase the administrative efficiency to promote tax planning practices. Covering loopholes and penalizing both were gained sixth position securing 4% each and other option did not get rank position by any respondents.

4.8 Application of Tax Planning

The result of application of tax planning has been presented in the following table:

Table No. 4. 4

Application of Tax Planning

Alternatives	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total No. of Res.	% of Res.
As much as possible	2	3	10	4	19	38
Moderate	3	4	5	4	16	32
Very little	5	3	5	2	15	30
Total	10	10	20	10	50	100

Source: Field Study, June 2012

The table No. 4.4 shows that of total respondents (i.e. 50), 30% of them are applied tax planning very little because they do not have practical knowledge of tax planning and prefer to apply tax evasion. They viewed that they have to adjust their expenses systematically to reduce tax liability under tax planning. But such adjustments of expenses had to be made even for tax planning. However; they claim that they needed to pay money either expense like donation or as tax. From the above analysis, it is clear that the respondents do

not know the true concept of tax planning. They have preferred tax avoidance than tax planning to reduce tax liability.

Similarly, 32% of the total respondents said that they applied tax planning in their company in an average. They claimed that they have not increased the expenses like donation, pollution control cost, research and development cost, life insurance, medical expenses etc. as tax reducing device rather they try to minimize their unnecessary expenses. They attempted to pay their tax payable to the government without cheating. They want to make healthy growth of economy and stability of economy by paying taxes without violating rules. Their attitude towards tax planning is neither positive nor negative but they use some of facilities provided by the tax law properly and effectively. 38% of the total respondents replied that they apply tax planning as much as possible. They claim that tax planning is the facilities given to them by the government so, they have taken the advantages of tax planning. They claimed that they usually assess their income or profit with tax reducing tools. If such types of expenses like medical expenses, life insurance premium, research and development cost, pollution control cost, project planning, strategic planning and operational planning are helpful for reducing tax liabilities, they would utilized such expenses. They strongly believe that tax planning is very effective moral and legal way to minimize tax liability so; the companies follow the tax planning as much as possible.

4.9 Do You Think That Tax Evasion and Tax Avoidance Practices Are The Root Cause of Not Applying Tax Planning?

Most of the tax payers do not like to apply the tax planning practices by appointing qualified and skilled manpower, until and unless the tax evasion and tax avoidance are completely controlled by the state. It is because of the easy methods to reduce tax liability more than that tax planning. Most of the small company is making their plan to reduce tax liability by using illegal, immoral, unethical means. About this matter, the following table has been presented as follows:

Table No. 4. 5

Tax Evasion and Tax Avoidance are the Barriers to Apply Tax Planning

S.N.	Options	No. of Respondents	Ranking Position	% of Respondents
1.	Yes	25	First	50
2.	No	15	Second	30
3.	No Idea	10	Third	20
Total		50	-	100

Source: Field Study, June 2012

About the problem, whether tax planning activities is interrupted or not in the presence of tax evasion and tax avoidance situation among them, 50% of respondents presented their view about the very necessity of fully controlling of tax evasion and tax avoidance by using very effective methods. They further suggested that people or tax payers were not motivated to use hard method to reduce nominal about of tax liability, in Nepal; there was a very low auditing and rechecking activities done by IRD or government. If the mistake was found, there was not any stick punishment and they used to escape by using nepotism, bribe to tax officials and political power.

30% of respondents suggested that there were other factors responsible about the not application of tax planning like, lack of qualifications, frequent difficult to apply tax planning, unclear rules and regulation, change of rules and regulation and administrative inefficiency etc. however, they agreed about tax evasion and tax avoidance habit could not change evader towards tax planning activities without they feel great challenges, for that the tax evader and tax avoider in one hand must be punished and the other, regular tax planner and tax payers should be rewarded in tax liability or in promoting social respect as per the nature of tax payers.

20% of respondents were in confusing about this matter. They did not know about tax evasion, tax avoidance and tax planning very nicely. They only said that illegal, unethical immoral activities must be control over to florist the legal, moral and ethical activities.

4.10 Suitability of Tax Planning for Minimizes Tax Liability

To know the suitability of the tax planning for minimize tax liability. The result has been presented in the following table:

Table No. 4. 6

Suitability of Tax Planning for Minimize Tax Liability

Alternatives	Mfg. co.	Trd. Co.	Comm. Bank	Ins. Co.	Total No. of Res.	% of Res.
Yes	8	10	14	8	40	80
No	2	2	4	2	10	20
Total	10	12	18	10	50	10

Source: Field Study, June 2012

The table No. 4.6 revels that, of the total respondents 80% of them believe that tax planning is very effective method to minimize tax liability whether they are used or not. The tax concession rebates and allowances to tax payers in order to enhance the healthy environment in the country. Thus, it is an arrangement of one's financial and economic affairs by taking complete legitimate belief of all deductions exemptions, allowances and rebates so that tax liabilities reduced to minimum. The research shows that attitude towards tax planning is going on positively in Nepalese organization. But first of all government should take it very positively for providing awareness programmed to organization, effective improvement of administration, proper analysis and evaluation methods for companies.

On the other hand 20% of the total respondents explained that the tax planning is not suitable for minimizing tax liability because most of the people have not understood the concept of tax planning. So, they are wrongly accepting tax planning. Tax planning has provided rebates, concessions and deduction for different location's industrials but only such facilities could not win the motivation of the respondents. They need good training stable facilities, securities and special support for the government. so it is very vast and critical to get such facilities by the tax payers. They have not got moral support for tax planning. First of all, the government should have fair administration in tax application so that tax payer would be obliged for compulsory payment of tax then they think positively about tax planning. But tax payers are taking more advantages cheating the government by tax evasion rather than tax planning. So, the government should increase positive perception about tax planning by clear concept and developing subsidiary facilities like infrastructure, security and moral support

4.11 Misuse of Tax Planning as Tax Evasion and Tax Avoidance

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

Table No. 4. 7

Misuse of Tax Planning as Tax Evasion and Tax Avoidance

Alternatives	Mfg. co.	Trd. Co.	Comm. Bank	Ins. Co.	Total No. of Res.	% of Res.
Yes	5	5	2	3	15	30
No	2	3	12	8	25	50
No idea	2	5	3	0	10	20
Total	9	13	17	11	50	100

Source: Field Study, June 2012

The table No. 4.7 shows that, 30% of the total respondents said that tax planning is being misused as tax evasion and tax avoidance in Nepal. There is weak tax administration in Nepal, so that tax payer can easily take advantages of the government. Most of the tax payers always show either nil tax liability or less tax liability. There is not deep investigation about tax liability as a result, they think about tax avoidance and tax evasion. On the other hand, the tax Act has encouraged self assessment so that they can take their real liabilities easily for less tax statement. They also complained that the facilities of tax planning have to increase with moral support of the government similarly, only self assessment should not be accepted for tax assessment. These should be regular investigation on every self assessment.

On the other hand 50% of the total respondents responded that tax planning is not being misused as tax evasion and tax avoidance in Nepal. Tax evasion and tax avoidance also reduced the tax liability but these are different from tax planning. Rare tax payers follow tax evasion because of no provision for heavy punishment in income tax Act. 2002. This process naturally encourages themselves for tax evasion. Therefore, to overcome the problem of the avoidance the government has to pay attention on the tax avoidance and improve the paying behavior of people. It is found that, tax avoidance and tax planning are applied together by some companies they claimed that both are legal. Because of unclear concept idea advantages of the loopholes and tax planning for reducing tax liability

However 20% of the total respondents answered that they have no idea and experience about tax planning being misused as tax evasion and avoidance in Nepal. They never attempted to analyze any other organization about the ways for fraud and errors. They claimed that they are always responsible for their duties and are paying tax regularly to the government. They never try to apply tax evasion and avoidance because they do the business for long – term. The facilities provided by law should be utilized because it is the authority for every organization.

4.12 Methods Used by Tax Payers for the Assessments of Tax

The tools of assessment for submitting the tax liability has been presented the following table:

Table No. 4. 8

The Tools of Assessment for Submitting the Tax Liabilities

Assessments	No. of Respondents	% of Respondents
Self assessment	50	100
Total	50	100

Source: Field Study, June 2012

The table No. 4.8 shows that of the total respondents 100% of them use self-assessment for submitting tax liabilities because income tax Act. 2002 has focused on the self assessment system. Self assessment is the assessment done by assesses him at the time of submission filling return of income.

Under income tax Act. Every assessment will be treated as self assessment. They always use to submit their tax liabilities by taking advantages of concessions, rebates, relief, incentives and allowances provided by the tax law these were the facilities they could follow under self assessment. There are varies levels of fine and penalty for those who violate the tax law. So, they never take advantages of self assessment but none of the respondents said that they use jeopardy assessment for submitting the tax liabilities because this assessment is done under special circumstances according to income tax Act. 2002 they are:

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

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

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

4.13 Following are the Important Area of Strategic Planning

a. Tax Consideration While Deciding Location of Business

Table No. 4. 9

Tax Consideration While Deciding Location of Business

Options	Mfg. co.	Trd. Co.	Comm. Bank	Ins. Co.	Total No. of Res.	% of Res.
Yes	5	10	18	7	40	80
No	6	2	0	2	10	20
Total	11	12	18	9	50	100

Source: Field Study, June 2012

The table No. 4.9 reveals that, of the total respondents 80% of them consider tax factor at the time of deciding location of business. Various important factors which should be considered while deciding the location of a firm are infrastructure facilities, nearness to product market. Tax benefits etc. specially

non-manufacturing companies like banking, insurance, trading etc. don't compromise in case of location. They usually established people gather area but they consider tax benefits in that area too.

In contrary to this 20% of the total respondents do not consider tax fact while deciding their location. They give priority to other facilities of that particular area. Some of the respondents said that this policy of category the whole nation into four regions (developed, underdeveloped, undeveloped and remote) from the view point of balanced regional development. But this policy of government has not been effective due to lack of essential factors like infrastructure, peace, market, availability of raw materials, manpower etc. which are very necessary precondition.

b. Tax Considerations At The Time of Merge and Amalgamation of Companies

Tax consideration at the time of merge and amalgamation of companies has been presented in following table:

Table No. 4. 10

Tax Considerations at the time of Merge and Amalgamation of Companies

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	% of Res.
Yes	7	7	18	10	42	84
No	2	6	0	0	8	16
Total	9	13	18	10	50	100

Source: Field Study, June 2012

The table No. 4.10 shows that, of the total respondents, 84% of them consider tax factors while deciding merge and amalgamation decisions. They said that amalgamation is an important instrument of tax liability. A profit making

company may merge with a loss make company in order to claim certain tax benefits which would be deduction in the tax liability. It would also help in the carry forward of losses of loss-making company to be set off against the profit deserved from the business of the profit making company. A non-industrial company may merge with industrial company in order to reduce tax liability.

In contrary to this 16% of the total respondents do not consider tax factor while taking merge and amalgamation decision. Actually, they never plan for strategic purpose and are unknown about tax planning. They do not know that tax factor is an important while making merge and amalgamation decision and how this helps to reduce tax liability.

c. Considerations of Nature of Business for Tax

Tax consideration at the time of selecting nature of business has been presented in the following table:

Table No. 4. 11

Tax Consideration at the Time of Selecting Nature of Business

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	% of Res.
Yes	7	7	15	8	37	74
No	3	5	3	2	13	26
Total	10	12	18	10	50	100

Source: Field Study, June 2012

The table No. 4.11 shows that, 74% of the total respondent's consider tax factor at the time of selecting nature of business. They said that they are attracted to invest those sectors in which the act provides more and more facilities. At the same time, being a profit oriented businessman, they always consider the profit or loss calculation while investing any sector. Almost of the respondents view that no of the respondents said that deciding about nature of business is one of

the most important strategic decision at the time of setting up of new firm or expansion and diversification of business activities of an existing firm.

On the other hand 26% of the total respondents didn't consider tax benefits while deciding the nature of business. They told that they invest in those sectors where they look profit or can be lived easily. Some of the respondent's replied that they invested only for professional in spite of bearing business losses. But, they are optimistic about future. From taxation point of view, while deciding the nature of business preference should be accorded to industrial units as tax benefits are available only to those units.

4.14 Following are the Important Areas of Project Planning

a. Tax Consideration at the time of Expansion and Diversification of Business

Tax consideration at the time of expansion and diversification of the business has been presented in the following table.

Table No. 4. 12

Tax Consideration at the Time of Expansion and Diversification of Business

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	%of Res.
Yes	5	5	15	10	35	70
No	5	8	2	0	15	30
Total	10	13	17	10	50	100

Source: Field Study, June 2012

The table No. 4.12 shows that 70% of the total respondents told that they use to consider tax at the time of expansion and diversification of the business. They consider tax rebate, concession, incentives etc. such facilities also encourage

them for the expansion and diversification of the business. So, they plan on such facilitated area for the expansion of the business. They are diversity small business into large scale business. As a result, they would develop economic stability in the country.

On other hand 30% of the total respondents stated that they did not consider tax at the time of expansion and diversification of the business. They expand and diversify their business when they are financially strong. So, they do not afraid of paying tax, when they could increase their income.

b. Tax Consideration At The time of Making or Buying Decision

Tax consideration at the time of making or buying decision has been presented in the following table:

Table No 4. 13

Tax Consideration At The Time of Making or Buying Decision

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	% of Res.
Yes	10	12	15	8	45	90
No	0	0	3	2	5	10
Total	10	12	18	10	50	100

Source: Field Study, June 2012

The table No. 4.13 shows that 90% of the respondents said that they give tax consideration at the time of making or buying decision. Through which way, they decrease their tax liabilities with the help of tax planning is their main concern. How long they can pay interest on their loan while making or buying. At that time they observe the tax planning facilities in both decisions.

In contrary to this, 10% of the total respondents said that they do not give tax consideration at the time of making or buying decision. They said that they

have to pay taxes at any cost on both decisions. There is not so more difference on each decision. Wherever they get facilities, they have to face some difficulties like time limit or any agreement. So, they do not give so more tax consideration on both decision but they get main priority to income. They focus on cost, quality of products, regularity in the supply of the product etc. rather than tax benefits.

c. Tax Consideration At The Time of Acquisition of Fixed Assets

Tax consideration at the time of acquisition of fixed assets has been presented in the following table:

Table No. 4. 14

Tax Consideration At The Time of Acquisition of Fixed Assets

Options	Mfg. Co.	Trd. Co.	Comm. Co.	Ins. Co.	Total No. of Res.	% of Res.
Yes	10	12	18	10	50	100
No	0	0	0	0	0	0
Total	10	12	18	10	50	100

Source: Field Study, June 2012

The table No. 4.14 shows that cent percent of all respondents accepted that they give tax consideration at the time of acquisition of fixed assets. They can make tax planning while acquiring fixed assets needed for running their business activities. These are mainly two ways of acquiring fixed assets: leasing and buying. The issue to be consider is cash out flow, tax protect in respect of depreciation, interest payable or least rent if assets are acquired through leasing, annual rental change is allowed for deduction. If the assets are purchased, depreciation as well as interest on borrowed loan is allowed for deduction. So, they said to evaluate both the options before making purchase decision of fixed assets.

On the other hand none of the respondents said that they do not give tax consideration at the time of acquiring fixed assets. They said to be on the point of maximum incomes from less expenditure. As a result, there after tax incomes will be more.

d. Tax Consideration at the Time of Disposal of Fixed Assets

Tax consideration at the time of disposal of fixed assets has been presented in the following table:

Table No. 4. 15

Tax Consideration at the Time of Disposal of Fixed Assets

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	% of Res.
Yes	5	10	18	7	40	80
No	5	3	0	2	10	20
Total	10	13	18	9	50	100

Source: Field Study, June 2012

The table No. 4.15 shows that 80% of the total respondents explained that they give tax consideration at the time of disposal of fixed assets. They consider about depreciation and capital gain tax when they would sell at more than purchase price. But the Act has not made any specific provision regarding capital gain (loss). As a result, items of similar nature are treated differently. Capital gain except from disposal of business assets of an individual are not allowed for deduction. In case of other tax payers, capital gains are not allowed for deduction. Such diverse treatment has been arisen confusion. Income Tax Act, 2002 has avoided such confusion. The act has treated depreciable assets, business assets, and non-business chargeable assets as capital assets, and non-business chargeable assets, as capital assets and gains realized from disposal of such assets as capital gain.

In the other hand 20% of the total respondents said that they do not give tax consideration at the time of disposal of fixed assets. They said that they have to sell at less than purchase price which they reduce at the time of calculation of depreciation. They sell at which price they can get but tax consideration is not their main focus.

e. Tax Consideration at the time of Modernization, Replacement, Repairs and Renewal of Existing Assets

Tax consideration at the time of modernization, replacement, repairs and renewal of existing assets has been presented in the following table:

Table No. 4. 16

Tax Consideration at the time of Modernization, Replacement, Repairs and Renewal of Existing Assets

Options	Mfg. Co.	Trd. Co.	Comm. Co.	Ins. Co.	Total no. of Res.	% of Res.
Yes	8	10	20	4	42	84
No	5	3	0	0	8	16
Total	13	13	20	4	50	100

Source: Field Study, June 2012

The table No. 4.16 shows that 84% of the total respondents said that they give tax consideration at the time of modernization, replacement, repairs and renewal of existing assets because tax facilities would help to reduce their tax liabilities. They can reduce 7% repairs and maintenance cost from their incomes. They search the ways of deductible expenses on the above activities.

On the other hand 16% of the total respondents said that they do not give tax consideration at the time of modernization, replacement, repairs and renewal of existing assets. These are their compulsory work. So, they are concerned only

on 7% repairs but do not search other additional alternatives. They keep tax consideration as secondary purpose.

4.15 Following Are The Importance of Operational Planning.

a. Tax Consideration At The Time of Choice of Method of Accounting

Tax consideration at the time of choice of method of accounting has been presented in the following table:

Table No. 4. 17

Tax Consideration At The time of Choice of Method of Accounting

Options	Mfg. co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	% of Res.
Yes	5	12	15	8	40	80
No	7	3	0	0	10	20
Total	12	15	15	8	50	100

Source: Field Study, June 2012

The table No. 4.17 shows that 80% of the total respondents said that they give tax consideration at the time of choice of method of accounting. Income Tax Act, 2002 has specified the methods of tax accounting in section 22. Subject to this Act, an individual or an entity should keep record of income and expenses according to generally accepted accounting principle (GAAP). An individual should record on cash-basis and entity should record on accrual basis. Although a company is required to account on an accrual basis, in respect of banking business the department may accept accounting policy formulated by Nepal Rastra Bank in accordance with Nepal Rastra Bank Act, 2002 and other prevailing banking acts. Especially modern organizations use latest methods of accounting system.

In contrary to this 20% of the total respondents said that they do not give tax consideration at the time of choice of method of accounting. They said that are compulsory books prescribed by the Act for individual, partnership and company. Either facts or late they have to record liabilities in both method of accounting i.e. cash basis and accrual basis. They argued that methods of accounting do not affect in a company's tax liability if we consider as a long term.

b. Tax Consideration At The time of Production Decision

Tax consideration at the time of production decision has been presented in the following:

Table No. 4. 18

Tax Consideration At The Time of Production Decision

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total no. of Res.	% of Res.
Yes	8	4	12	6	30	60
No	0	10	4	6	20	40
Total	8	14	16	12	50	100

Source: Field Study, June 2012

The table No. 4.18 shows that 60% of the total respondents said that they would give tax consideration at the time of production decision. They try to utilize maximum resources on which they get tax consideration facilities, like remote area allowances, concessions, subsidies etc. on their production function. Manufacturing industry as categorized in section (3) of Industrial Enterprises Act, 1992 has been said as special industry.

They mean to say that they minimize tax liabilities by tax planning in respect of production decision.

In converse to this 40% of the total respondents said that they do not give tax consideration at the time of production decision. Their main objective is to increase production and extend their market. They would search such marketers where they earn maximum income. Tax liabilities are their secondary objectives.

c. Tax Consideration At The Time of Marketing Decision

Tax consideration at the time of marketing decision has been presented in the following table:

Table No. 4. 19

Tax Consideration At The Time of Marketing Decision

Options	Mfg. Co.	Trd. Co.	Comm. Bank.	Ins. Co.	Total no. of Res.	% of Res.
Yes	4	5	12	6	27	54
No	5	8	4	6	23	46
Total	9	13	16	12	50	100

Source: Field Study, June 2012

The table No. 4.19 shows that 54% of the total respondents total that they give tax consideration at the time of marketing decision. They use to study about location segment in respect of tax planning. They consider tax incentive, deductions, rebates etc as much as possible at the time of marketing decision. They use to plan regarding tax planning for reducing tax liabilities.

On the other hand 46% of the total respondents explained that they do not give tax consideration at the time of marketing decision. They mean that they use to take more risk for more gain. Tax facilitated area cannot get more benefits for marketing. They use to plan for extending market into developed area for earning more. It has been realized that the facilities provided by tax law related to marketing plan is inadequate to minimize tax liability.

d. Tax Consideration At The Time of Personal Remuneration

Tax consideration at the time of personal remuneration has been presented in the following table:

Table No. 4. 20

Tax Consideration At The Time of Personal Remuneration

Options	Mfg. Co.	Trd. Co.	Comm. Bank.	Ins. Co.	Total no. of Res.	% of Res.
Yes	4	12	14	7	37	74
No	4	0	5	4	13	26
Total	8	12	19	11	50	100

Source: Field Study, June 2012

The table No. 4.20 shows that 74% of the total respondents said that they give tax consideration at the time of personnel remuneration. Tax planning in respect of remuneration payment should be viewed from the point of view of employers as well as employee. In planning for employment income, tax planner should employ this expenditure scheme in such a way that benefited. The employer should see that whichever was spent on employees was allowed to be deducted while computing business income.

In other hand 26% of the total respondents mentioned that they do not give tax consideration at the time of personnel remuneration. They mean, they provided facilities to employees for receiving more remuneration but they do not take such remuneration as their tax reduction source. It is because they almost have no idea about reducing tax liability by providing personal remuneration.

e. Tax Consideration At The Time of Avoidance of Penal, Fine and Prosecution

Tax consideration at of avoidance of penal, fine and prosecution has been presented in the following table:

Table No. 4. 21

Tax Consideration At The Time of Avoidance of Penal, Fine and Prosecution

Options	Mfg. Co.	Trd. Co.	Comm. Bank	Ins. Co.	Total No. of Res.	% of Res.
Yes	4	9	8	4	25	50
No	7	8	6	4	25	50
Total	11	17	14	8	50	100

Source: Field Study, June 2012

The table No. 4.21 shows that 50% of the total respondents explained that they give tax consideration at the time of avoidance of penal, fines and prosecution. They try to bear less tax increase of penal fines and prosecution. But they never try to do such behavior of fines and prosecution. They use to submit correct tax liability regularly.

On the other hand same percent of the total respondents mentioned that they give tax consideration at the time of avoiding penal, fines and prosecutions. They mean to say that there are not any facilities for avoiding such penal, fines and prosecution. So, they never make any tax consideration for such fines. Actually, they pays fines and penalties if do any mistakes against the law.

4.16 What Factors Responsible for Poor Tax Planning Habit of Nepalese People?

About the question, why Nepalese organizations and people did not take tax planning activity seriously and effectively, the following options have been presented as follows

Table No. 4. 22

Factors Responsible for Poor Tax Planning Habit of Nepalese People

S.N	Options	No. of Res.	Ranking Position	% of Res.
1.	Lack of tax payer education	18	First	36
2.	Complicated/unstable law	16	Second	32
3.	Poor enforcement of penalties	3	Fourth	6
4.	Unhelpful attitude of tax personnel	2	fifth	4
5.	Improper utilization of resources collected by government	2	Fifth	4
6.	Lack of sufficient branches of tax office	-	-	-
7.	Lack of more incentives to tax planning	9	third	18
8.	Others	-	-	-
Total		50	-	100

Source: Field Study, June 2012

18 respondents focused to the option lack of tax payer education responsible for poor tax planning habit of Nepalese people. It was 36% and got the first position. Naturally tax planning is as science and art that requires more and

more update knowledge of a tax laws, financial acts, rules and regulations of the government. Very few number of people study about tax and they also take tax planning as very difficult to apply. Most of the small organizations, there were accountants just passed the intermediate level and they know nothing about tax planning. In other words, they only know the illegal means to reduce tax liability, i.e. tax evasion. They could not take the avoidance of tax because they did not know the loopholes in income tax Act.

32% respondents felt tax law is very complicated and unstable as a result they were in very confusion in the language of tax and its genuine spirit. Income tax Act 2002, there was very complicated language which gives the dual meaning. If tax payers could not sure; then they felt boring to take advantages of tax planning. Similarly, tax laws were also changing and amending each year by financial Act, as a result, most of respondents were in confusion about what to do.

18% respondents said that the main cause of poor tax planning habit of Nepalese people is due to the lack of more incentives provided by the tax Act. Many incentives had been cutting by the government to follow the principle of 'low rate wide net' most of the tax payers said that in income tax Act 2002 A.D. there were very less options where to apply tax planning as compared with income tax Act 1974 A.D. however, this facilities utilizations is also very difficult and useful only for strategic tax planning. Generally, accountants were not permanent in the organization to adopt and implement strategic tax planning. So tax planning is done within the incentives, allowances, rebates provided by the government if the government is against these facilities, the way of reducing tax liability will be finished. Hence to promote and reform tax planning, various facilities should be provided by government as a positive reward to reduce the tax liability of honest tax payers.

Poor enforcement of penalties to the tax evader and tax avoider was the main cause of poor utilization of tax planning concept which was supported by 3 respondents or 6% of respondents. They said that if illegal activities would not

be punished, then legal activities will also bend towards illegal. In other words there was not enforcement and immediate punishment to tax evader, so tax planning habit of Nepalese people could not develop.

Similarly, unhelpful behavior of tax personnel and improper utilization of resources were the other simple causes that receipt 4% respondents support respectively. In one hand tax planners were not supported and motivated by the tax officer. Against they were treated as tax evader through tax personnel. In some respects, income tax Act 2002 had made some provision to control the tax planning

On the other hand the collected amount was not effectively utilized by the government. As a result, more tax payers even honest tax payers were also dissatisfied to continue their behavior.

4.17 In your Experience Does a Taxpayer Feel Difficulties in the Process of Income Tax Assessment?

Table No. 4. 23

Difficulties in the Process of Income Tax Assessment

S.N.	Options	No. of Respondents	Ranking Position	% of Respondents
1.	Yes	12	Second	24
2.	No	35	First	70
3.	No idea	3	Third	6
Total		50	-	100

Source: Field Study, June 2012

24% of the respondents did feel difficulties while assessing their amount of income and tax liability. They could not understand the documents that they had to fill themselves in a self assessment method.

70% respondents took the self assessment method as positive way. They said in self assessment they were able to utilize the advantages of concessions, rebates, relief, incentives and allowances provided by the tax law. These were the facilities they could follow under self assessment.

Similarly 6% respondents had no ideas about the difficulties in the process of income tax assessment.

4.18 What Types of Difficulties Were Felt by Tax Payers While Assessing Income and Making Tax Plan has been presented as Follows:

Table No. 4.24

Tax Assessment, Tax Planning and Problems

S.N.	Options	No. of Res.	Ranking Position	% of Res.
1.	Complicated procedure	12	first	24
2.	Need of unnecessary documents	9	second	18
3.	Expectation of personal monetary benefit	8	third	16
4.	Lack of relevant tax information	6	forth	12
5.	Unstable tax laws, rules and regulations of government	5	Fifth	10
6.	High expectation of taxable income by tax personnel than reality	5	Fifth	10
7.	Lack of cooperation of tax administration	4	Sixth	8
8.	Consume unnecessary time	1	seventh	2
Total		50		100

Source: Field Study, June 2012

Form the above table No. 4.24 it is observed that the tax payers had faced so many problems while assessing their taxable income, tax liability and tax planning. Majority of them i.e. 24% respondents were bothered by complicated procedures that should be followed very strictly. Income tax in Nepal has faced serious problem of administrative and legal deficiencies as well as delay in tax assessment. Undue delay in tax assessment procedure is the serious problems of income tax system of Nepal. These not only reduce the total revenue but also harass the taxpayers in the payment of tax. Moreover, taxpaying habit is undeveloped and there is a lack of tax consciousness in the Nepalese public and voluntary compliance is also lacking.

18% respondents faced the problem of presenting unnecessary document while taking the benefit of tax planning. They felt difficulties to submit all the bills, vouchers, reports documents separately of different facilities. 16% of respondents said that aphorism and undue delay in tax assessment procedure are the serious problems. Generally tax officers tried to increase their personal monetary benefit by using discretionary power more than necessary which has encouraged corruption practices in Nepalese tax system. Most of the tax personnel did not present their helpful behavior and supportive legal behavior to the tax payers. They used to make the procedure delay and tried to impress the tax payers in bad influence. Some time they encouraged to the tax payers for tax evasion and tax avoidance by taking illegal benefit.

Lack of relevant tax information system was also the major constraint of hindering tax assessment and tax planning. 12% respondents focused about this problem. There was not relevant and effective information system regarding the taxation in Nepal. All the tax payers wanted to be informed by the IRD office about the tax matters. Easy, effective and convenient information system is to be developed and free follow of information is essential. In the absent of this most of the tax payers are compelled to pay fine, penalties unknowing.

However, information system has been modernizing due to the computerization process in Nepal. It should be managed very systematically to

provide the true information to tax payers and search about tax evader and tax avoider to take them in the streamline of tax planning. Similarly lack of stable tax laws Act, rules and regulations were another problems faced by tax payers. 10% of respondents stated their view about this concern. They said, income tax Act, finance Act, rules, provision etc had been changing time to time as a result they felt it difficult because of the lack of update knowledge or due to the dominance of old knowledge. Changing and amending was the regular phenomenon of Nepalese tax system. Regularly changing rules discouraged to the tax payers about to make plan. 10% respondents said that income level of Nepalese people was very low. As a result most of them were under tax exempted. 8% of respondents replied there was the lack of cooperation between tax personnel and tax payers. Most of the tax personnel thought tax planning activity equivalent to tax evasion and tax avoidance. They used to asked unnecessary questions to tax payers but not helped honestly.

4.19 Where the Tax Concessions, Rebates, Relief, Incentives Granted to the Tax Payer under the Existing Tax Law Adequate?

The result of tax exemption, rebates, deductions and concessions granted to the company under the existing law has been presented in the following table.

Table No. 4. 25

The Tax Exemptions, Rebates Deductions and Concessions Granted to the Company under the Existing Tax Law Adequate or Not

S.N.	Options	No. of Respondents	Ranking Position	% of Respondents
1	Yes	28	First	56
2	No	18	Second	36
3	No idea	4	Third	8
Total		50	-	100

Source: Field Study, June 2012

From the above table No. 4.25, 56% of respondents responded the tax exemptions, rebates, deductions and concessions granted to the company under the existing tax law are adequate. Only the important point of them is that they can feel more difficulties to understand the sections and subsection about it. 36% of total respondents said that the tax exemptions, rebates, deductions and concessions granted to the company under the existing law are not adequate because the amount of rebates, concessions etc. should be given in descending order according to time period. The newly established company should face various problems in strategic planning, project planning and operational planning. So, they must be provided maximum incentives, rebates and concessions etc. in the beginning and reducing in the years to come. In addition, they said that only such types of facilities cannot play great role in the development of the company, they need security, moral support, technical support, financial support, feasibility development etc. by the government. They claimed that the aristocratically but the practical is more difference. So such types of supportive activities should be maintained to make such exemption, rebates, deductions and concessions should be increased similarly the period of carry forward should be extended.

8% of the respondents stated that they were unknown about the tax exemptions, rebates, deduction and concessions granted to the company either adequate or not. They claimed that the more such facilities given more they expect. So they cannot limit these are adequate or not it depends on the nature of company.

4.20 Does Your Company Maintain Proper Books of Accounts?

In their overall ranking of the major problems of maintaining proper books of accounts the following result has been presented as follows:

Table No. 4.26

Maintaining Proper Books of Accounts

S.N	Options	No. of Respondents	Ranking Position	% of Respondents
1	Yes	50	First	100
2	No	-	-	-
Total		50	-	100

Source: Field Study, June 2012

From the above table, it is observed that all the organizations or taxpayers maintained their books of accounts most of the large organizations record their financial transactions based on double entry book keeping system or based on accounting equation. This system is the most scientific, systematic and modern to keep the records properly. They use to record day to day income and expenditures in the prescribed format of the tax law. They use to submit profit and loss account, balance sheets, production related statement, cash flow and income statement which are declared by Inland Revenue department.

None of the respondents rejected for the maintaining of proper books of accounts. However, a few small organizations cannot maintain their books of account based on accounting principles. Some organizations used to prepare dual accounting system for tax evasion which harms all the organization. It must be controlled by timely administration and assessment.

4.21 What Are The Reasons of Widespread Income Tax Evasion in Nepal?

In their overall ranking of the suggestions for the reasons of widespread evasion of income tax in Nepal has been presented as follows:

Table No. 427**Reasons of Widespread Evasion of Income Tax in Nepal**

S.N.	Options	No. of Res.	Ranking Position	% of Res.
1	High corruption	18	First	36
2	Lack o effective fine and penalties	12	Second	24
3	Inadequate accounting, auditing and investigation system	7	Third	14
4	High rate of tax	6	Fourth	12
5	Administrative inefficiency	4	Fifth	8
6	Widespread illegal business activities	2	Sixth	4
7	Complicated procedure	1	Seventh	2
8	Loopholes in income tax law	-	-	-
9	Political stability	-	-	-
10	Others	-	-	-
Total		50	-	100

Source: Field Study, June 2012

The above list indicates that the major cause of tax evasion was due to the high rate of corruption prevailing every sectors of Nepal. About this matter, 36% of respondents highlighted. They claimed that corruption culture was developed in most of the sectors of the economy. As a result, tax evasion had not done taxpayer themselves; rather it was done with the help of tax personnel by taxpayers.

24% of total respondents said that the main cause of tax evasion was due to the lack of effective fine and penalties. If the loss of fine and penalties is very high than the taxpayer would think about the cause and consequences of tax evasion in addition they should be punished by using other methods, such as presenting the name in black list, taking in prison, not providing facilities etc. it is naturally true that if the amount of fine and penalties is less than the amount of tax evasion, then tax evasion would not be control.

14% of respondents stated that the existence of tax evasion is due to the cause of inadequate accounting, auditing and investigation system. The auditing system of the government is ineffective in other words, that auditor to whom the organization wants to refer, the audits the books of accounts and prepares the statements on behalf of company. He/she makes or prepares the report as per the interest of taxpayers rather than Inland Revenue department. Hence most of the tax evasion activities are done by the small organization with the help of auditors they appointed on the other, IRD has not been able to check or investigate the books of account, bills, vouchers and other supportive documents whether they are correct or not.

12% of the respondents said that high tax evasion was due to the high rate of tax the income level of Nepalese people and company is very low and the rate of tax is very high as a result they have to pay more amounts if they become honest to reduce such tax liability they choose the illegal way i.e. tax evasion. In Nepal, the rate of tax has been decreasing since the government adopted the policy 'low rate wide net'. They claimed that after reducing the rate of tax; tax payers will be willing to pay the tax honestly, legally and morally. They suggested that the tax rate should only 10% and have to increase the coverage of tax to collect the required revenue.

8% of respondents said that tax evasion was due to the administrative inefficiency. Tax personnel of government are not very interested to make the effective plans, policies and to implement them very actively. They are concerned to come office and spent official time only, but not about how to

collect the more and more tax as a result tax payers take the credit habit of tax personnel's bad habit.

Similarly, 4% respondents said the high rate of tax evasion was due to the establishment of illegal and unregistered in IRD. They run one place for some time and then other places and do not pay tax.

Complicated tax law was the reason of tax evasion. 2% of respondents said that the tax act, section, sub-section, language procedure of tax is complicated so taxpayers would be motivated to choose the tax evasion activity.

4.22 How Tax Evasion Behavior of Nepalese Tax Payers Can be Avoided?

A question of six options was asked to the respondents and they presented their view which has been shown as follows:

Table No. 4. 28

Methods of Avoiding Tax Evasion and Promoting Tax Planning

S.N	Option	No. of Res.	Ranking Position	% of Res.
1	Educating tax payers by training	12	First	24
2	Setting and monitoring tax collection target	9	Second	18
3	Exercising greater supervision over tax staffs	7	Third	14
4	Adopting reasonable tax rates	7	Third	14
5	Fine and penalties	6	Forth	12
6	Incentives to regular tax payer	3	Fifth	6
7	Effective utilization of collected tax	2	Sixth	4
8	Sending regular reminder notice	2	Sixth	4
9	Simplifying tax law in terms of language, section, sub section	2	Sixth	4
Total		50	-	100

Source: Field Study, June 2012

The above list indicates that the 1st position was held by the options of conducting tax education program to cultivate or nurture taxpaying culture among tax payers. 24% of respondents said that the government has to provide education, training to the tax payers to make the tax payers aware and more responsible to pay the tax honestly.

18% respondents said that there was necessary of setting and monitoring tax collection targets. They said that tax should be collected in systematic and scientific way. For that setting the tax standard and monitoring the collected amount with standard was essential to control the evasion activity. Self-assessment of tax is given and monitoring activity in nominal. As result, tax evasion activity is growing.

14% of respondents said that the low tax rate would be able to reduce tax evasion. 12% respondents focused on the option fine and penalties to tax payer who did not pay the tax. They added if there was not establishment and implementation of effective reward and punishment system to honest and dishonest tax payers, the honest ones would also be shifted towards dishonest tax payers. So dishonest tax payers should be immediately punished to streamline them in the main stream of tax planning.

14% respondents said that there was the very need of supervision over tax staffs they said tax evasion activity takes place by joining hands with tax personnel for personal benefit the tax personnel should not given the sole authority and responsibility it means there should be the system of checking and rechecking to make the system effective and transparent.

6% of respondents said that more incentives and rewards should be provided to the honest and regular taxpayers. They should be respected, rewarded in the society to be encouraged.

4% of respondents focused for sending regular notice to the tax payers to make them aware and honest for the purpose of reducing tax evasion. Regular enforcement was necessary through notice, letters, etc. for promoting payment and makes them liable.

4% of respondents also focused for the effective utilization of collected tax by the sage to make tax payers more liable

4.23 What Are The Major Problems of Tax Administration to Support and Reform Tax Planning in Nepal?

About to find out the major problems of tax administration to support and reform tax planning in Nepal, answer of the respondents has been presented in the following table:

Table No. 4. 29

Problems of Tax Administration to Support and Reform Tax Planning in Nepal

S.N	Options	No. of Res.	Ranking Position	% of Res.
1	Weak tax administration	17	First	34
2	Low quality of life, social value, moral value of Nepalese people	11	Second	22
3	Lack of motivation to both tax personnel and tax payers	8	Third	16
4	Political instability and change in tax law, Act. Etc.	5	Forth	10
5	Lack of experts in tax management	3	Fifth	6
6	Lack of training facilities to tax personnel	2	Sixth	4
7	Lack of sufficient incentives to tax payers	2	Sixth	4
8	Misuse of power by tax administrators	2	Sixth	4
Total		50	-	100

Source: Field Study, June 2012

From the above table No. 4.29 the 1st problem of tax administration to support and reform tax planning was weak tax administration of Nepal government. out of total respondents, 34% of them said that all the problems seen in taxation were due to the weak tax administration and management. The effectiveness of tax administration basically depends upon the quality of tax personnel. The tax administration was weak and traditional. There had been a mismatch between the quality of staff and demand of the job. Turnover of the personnel, which is generally not in the interest of the tax administration, was rather high.

22% of respondents said that effective tax administration and tax planning was hampered due to the low quality of life, social value, moral value of Nepalese people. In one hand due to the lack of physical facilities in the tax offices, the tax officers can hardly concentrate on their duties due to low salary, they were compelled to look for other sources of income that invites corruption. Corruption was the chronic disease of tax administration in Nepal.

16% respondents said that there is no motivation activities provided to tax officers and tax payers by the government. Lack of motivation caused lack of responsibility and honesty among tax officers and taxpayers. So to make tax administration effective both tax personnel and taxpayers should be motivated by providing special allowances, incentives and rewards for better and honest performance.

10% of respondents highlighted the problem of political instability and regular change in the tax law, tax act. Etc. moreover; they said that most of the organization could not run smoothly due to the political insurgency and instability. As a result, very few business firms were running in profit and denied to pay tax honestly because of the lack of the responsibility of government.

6% respondents said that there was the lack of experts in tax management as a result effective tax administration could not establish.

4% respondents said there was only poor training facility. It was not felt necessary aspects of taxation before taking up jobs. Personnel were directly

posted to the field officer after lack of auditors, treaty negotiators and trained personnel on various aspects of taxation.

Similarly, 4% respondents claimed to the tax personnel who misused their power given discretionary power by the Act. It would be helpful if it was effectively use; however it would be so dangerous when they used for personal benefit.

4.24 What Are the essential Factors for Making Fax Administration and Tax Planning Effective?

In their overall ranking of the essential factors for making tax planning effective, the following result has been obtained as follows:

Table No. 4.30**Factors for Making Tax Administration and Tax Planning effective**

S.N.	Options	No. of Res.	Ranking Position	% of Res.
1	Tax education to tax payer	11	First	22
2	Effective reward and punishment system	10	Second	20
3	Simple tax procedure	8	Third	16
4	Proper training to tax personnel	7	Forth	14
5	Better information system	6	Fifth	12
6	Identification and clear-cut advertisement about tax incentives	4	Sixth	8
7	Extra incentives and facilities to the honest and regular tax payer	2	Seventh	4
8	Simple tax law	2	Seventh	4
9	Better public relation by tax personnel	-	-	-
10	Others	-	-	-
Total		50	-	100

Source: Field Study, June 2012

From the above table No. 4.30, it is observed that in the Nepalese context tax education to the tax payers was necessary. About this factor 22% of respondents rank it as a first factor for making tax administration and tax planning effective. Only the educated and qualified people do make the activity of tax planning. Moreover, tax planning is the art and science to reduce the tax

liability by the proper utilization of facilities provided by the Act. Respondents claimed that most of the tax payer were uneducated or they knew a very few about the tax law, tax planning etc. they suggested that tax education was indispensable for making tax administration and tax planning effective.

Second position was received by the option that effective reward and punishment system was urgent for making tax administration and tax planning effective. They added, fine and penalties to the tax payers who did not pay the tax was essential to make the tax system effective. Moreover, if there is not establishment and implementation of effective reward and punishment system to honest and dishonest tax payers; the honest ones will also be shifted towards dishonest tax payers. So dishonest tax payer should immediately punish to streamline them in the mainspring of tax planning.

16% of the respondents highlighted the option about simple tax procedure that was need for making tax administration and tax planning effective. While paying tax and taking advantages of tax planning the respondents had to follow very lengthy procedure which was very boring and irritating. They suggested, making the tax administration and tax planning effective the very simple tax procedure should be established and developed.

14% respondents focused provide the tax training to the tax personnel. Training was essential element to improve and update the knowledge, skills and techniques of tax personnel. There was lack of an extensive training programmed for tax officers.

12% respondents gave the first priority to the option of better information system for making tax administration and tax planning effective. They said, the data base information system was very limited in tax offices. Records maintained by tax offices regarding potential taxpayers and their economic activities were not adequate. There was the lack of information depository or data bank. Effective system of cross checking and investigating of return was lacking they suggested that such types of information related problems should

be immediately solved. On other words; better information system should be developed for making tax administration and tax planning effective.

8% respondents said that most of the tax payers did not know the facilities or incentives provided by the tax law. So it was necessary to inform the tax payers about such incentives by using advertisement. Such type of advertisement or information would be the helper for making tax administration and tax planning effective. 4% respondents demanded to provide the extra benefits and facilities to the honest and regular tax payers. 4% respondents said that tax law must be simple in terms of language.

4.25 Do You Think, Income Tax Act 2002 A.D is Sufficient to Support Tax Planning?

To know the respondents response about whether income tax Act 2002 A.D. was sufficient or not to support tax planning the following result based on ‘yes’ ‘no’ answer was as follows:

Table No. 4.31

Whether Income Tax Act 2002 A.D. was sufficient or not to support Tax Planning

S.N.	Options	No. of Respondents	Ranking Position	% of Respondents
1	Yes	15	Second	30
2	No	25	First	50
3	No idea	10	Third	20
Total		50	-	100

Source: Field Study, June 2012

Here, the above list indicate that majority of respondents said income tax Act 2002 was not sufficient to support tax planning activity of tax payer. Among

all 50% respondents or tax planner were not satisfied about new Act. They said, the government has been cutting down the incentives, rebates allowances after the establishment of policy “low rate wide net”. In Nepal industrial enterprise Act 2002 A.D. industrial enterprise Act 1981 and industrial enterprise Act 1992 provided many types of tax facilities to the industrial sector. Due to these facilities provided to industrial sector in Nepal and the world at large, there was the need of expert knowledge to find out the actual facilities provided by the Act as per the law. It means there was great scope of tax planning at that time however; the scope of tax planning has been reduced to some extent in these days under income tax Act 2002 A.D. Nepalese government has also changed its course and abolished most of the tax facilities provided by industrial enterprise acts. New income tax Act has been brought to increase the net of taxation.

However 30% respondents said the income tax Act 2002 was sufficient to support tax planning. Still there were some avenues where tax experts can make tax planning. There are the options of selection of the structure of organization, selection of location source of capital, size of business selection of market , merging of business, acquisition of fixed assets, repair and improvement cost, pollution control device, research and development expenses, donation, leasing buying etc to make tax planning.

Among all the respondents 20% respondents select the option no ideas. They said that they unfamiliar with the income tax Act 2002 A.D. so they do not know about the scope of tax planning under income tax Act 2002 A.D.

4.26 What Are The Major Demerits of Income Tax Act 2002 A.D. regarding the Scope of Tax Planning?

To know the respondents response regarding the demerits or drawbacks of income tax Act. 2002 A.D for the effective application of tax planning has been presented as follows:

Table No. 4. 32**Demerits of Income Tax Act, 2002 A.D. regarding Tax planning**

S.N.	Options	No. of Res.	Ranking Position	% of Res.
1	Unclear rules, regulations, section and subsection to understand by tax payers	21	First	42
2	Regular cut-up in incentives and rebates as compared with income tax Act.1974 A.D.	17	Second	34
3	Lack of covering the loopholes in tax law	4	Third	8
4	Not mentioning about the declaration of tax personnel property each year	3	Forth	6
5	High rate of tax	1	Fifth	2
6	No clear cut provision to develop check and balance system	1	Fifth	2
7	lack of reducing discretionary power of tax officers	3	Forth	6
Total		50	-	100

Source: Field Study, June 2012

Above table indicates the opinions of majority of tax respondents about the drawback or limitation of income tax Act 2002 A.D. ambitious and unclear rules, regulations as well as unnecessarily established sections, subsections are the main issues for supporting tax planning. Supporting this view they obtained that new income tax Act is very complex to understand not only ordinary

people but even to tax experts also. The level of language was tedious, unclear and incomplete. Repeated by use of 'or' was, that leads the reader towards confusion. Tax planning is an art of dogging tax law and tax act. However, the tax planners felt very confusion to apply the tax planning measures to reduce their tax liabilities.

The second limitation of income tax Act for hindering effective tax planning was regular cut up in incentives and rebates in new income tax Act. 34% respondents said that the new income tax Act 2002 A.D. had narrowed down the scope of tax planning by abolishing the various facilities and rebates extended in the previous Act. They said that there was great scope of tax planning before the implementation of new income tax Act. "Low rate and wide net" policy was adopted by the government. Hence income tax Act has reduced the scope of tax planning to a great extent by abolishing all the tax related provisions under industrial enterprise Act 1992 and other respective Acts. The new Act Has widened the tax base by bringing in all the income into tax brackets.

8% of the respondents said that new income tax Act 2002A.D. could not suggest plugging all the loopholes prevailed in the previous Act. Due to this, tax payers had been using these loopholes to reduce their tax liability rather than using tax planning. They suggested that if tax loopholes will be plugged completely, then after, the tax payers would search positive or legal way of reducing tax liability.

6% respondents said that income tax Act 2002 A.D. had given the discretionary power to the tax personnel by using this power; they have not respect the tax payer's loyalty. Sometime they used to increasing their personal benefit some of them took tax planning activities also as a tax avoidance and tax evasion.

Similarly 6% respondents suggested about the declaration of tax personnel property annually. It would reduce the tax corruption and increase the tax planning activity.

2% of respondents said that the tax rate is high i.e. 20% to 30% they have suggested that it should be brought down to 10% for the effective reform of tax planning in Nepal.

4.27 In Your Opinion, What Are the Areas of Tax Planning Reform in Nepal?

To know the result of respondents concerning the areas that are to be reformed for effective tax planning the following table has been presented based on the response of respondents.

Table No. 4.33

Areas of Tax Planning Reform in Nepal

S.N.	Options	No. of Res.	Ranking Position	% of Res.
1	Reform in tax administration	18	First	36
2	Reform in corporate structure, individual level	15	Second	30
3	Reform in tax plan and policies	11	Third	22
4	Reform in tax law	6	Forth	12
Total		50	-	100

Source: Field Study, June 2012

36% of respondents said that there was urgent of reform in tax administration in Nepal. They said that the tax administration in Nepal was very weak. So, the remedial measures for reform in tax administration received from the respondents were simplification of income tax Act need of cooperative attitude of tax personnel towards tax payers comprehensive training to tax personnel “fixation of tax collection target” and strict monitoring of tax personnel etc. they further said that tax administration should be effective for the both

promotional and regulation activities. Tax administration is a device that must compel the illegal, immoral, and unethical activities toward the legal, moral and ethical activities respectively.

The second position result was obtained for the reform in corporate level or individual level. Among all 30% of respondents gave priority to reform corporate tax structure for making tax planning effective and more functioning. For that they suggested the 'selection of tax base', 'tax rate', 'benefit of the incentives by utilizing strategic planning', 'project planning' and 'operational planning' as far as possible. Tax incentive was a very popular constituent of tax structure as it results in lowering down of the effective tax rate. Tax incentives may mean partial or complete exemption from one or a variety of taxes and special allowances, generally for a limited period of time. For that they have to established tax planning section hiring by tax experts.

22% of respondents focused on reform in tax plan and policies. They said that an effective commission task force should be appointed to take a long term comprehensive look at the tool taxation system, including the income tax, with specific terms of reference. In Nepal, the revenue division had been established in the ministry of finance largely to evolve revenue policies and undertake

Similarly important tasks However, the division did to have any provision to have permanent experts to conduct through studies, researches, analysis and so for or extended suggestions regarding tax reform policies. In addition respondents suggested developing the planned tax reform system with long term perspectives on the basis of studies, research and analysis.

6 respondents or 12% out of them highlighted the opinion of reform in tax law as an area for tax planning reform. They said legislation should be for compliance, not for defaulters. Tax law must be simple, unambiguous and certain the language, sections, subsections should be very clear. They claimed that the existing tax law did not grant more tax incentive for the promotion of corporate sector.

4.28 Major Findings

If we are find extra new things in this study that is called major findings of the study. That was not practice before this study. It helps to identifying the result which meets the objectives of the study.

4.28.1 Findings |From the Primary Data

- The opinion survey shows that the familiarities of tax planning are 80% of the respondents have knowledge of tax planning.
- According to this survey, reasons for not familiarities with tax planning are hard to follow the method of tax planning, concession & rebates provided are not cleared and lack of qualified manpower, one of the major things is that it is easy to follow tax evasion and tax avoidance than tax planning.
- The opinion survey shows that the application of tax planning in Nepal is very little among 50 respondents 38% uses as much as possible, 32% uses as moderate and 30 said very little.
- According to this survey root cause of not applying tax planning is tax evasion and tax avoidance among 50 respondents 50% of them said that yes.
- According to this survey, methods of reducing tax liability are taking advantages of loopholes use of tax planning, exaggeration of income and expenses and negotiation with tax officer are major.
- According to this survey 80% of respondents (i.e.50) said that tax planning is suitable to minimize tax liability and 20% said that there is no suitable tax planning for minimizing tax liability because most of the people have not understood the concept of tax planning so they are wrongly accepting tax planning.
- According to this survey tax evasion and tax avoidance are misusing as tax planning among 50 respondents 30% of respondents said tax planning is being misused as tax evasion and avoidance.

- According to this survey to make tax planning practicable, simplifying tax law, reforming tax structure, promoting the social value of tax payers who pay the tax honestly, increasing administrative efficiency are most important things.
- Opinion survey shows that 80% of total respondents said that they consider tax at the time of deciding location of business. Whereas 20% of total respondents do not consider tax fact while deciding their location. They give priority to other facilities of that particular area like infrastructure, market, availability of raw materials, manpower etc.
- 84% of the total respondents are accepted that they consider tax factor at the time of merge and amalgamation of companies
- Most of the respondents (I.e. 75%) of respondents consider tax at the time of selecting nature of business.
- 70% of respondents consider tax at the time of expansion and diversification of business whereas 30% of total respondents stated that they did not consider tax at the time of expansion and diversification of business. They expand their business when they are financially strong.
- 90% of the respondents said that they give tax consideration at the time of making or buying decision, whereas 10% of the total respondents said that they do not give tax consideration at the time of making or buying decision. They said that they have to pay taxes at any cost on both decisions there is not so more difference on each decision.
- 80% of the respondents said that they give tax consideration at the time of disposal of fixed assets.
- According to this study 85% of respondents said that they give tax consideration at the time of modernization, replacement, repairs and renewal of existing assets.
- According to this study 80% of total respondents said that they give tax consideration at the time of choice of method of accounting.
- 60% of respondents said that they consider tax at the time of production decision.

- 56% of respondents said that they consider tax at the time of marketing decision.
- According to this survey 75% of the respondents said that they consider tax at the time of personnel remuneration.
- According to this survey factors responsible for poor tax planning habits are lack of tax payer education; unstable law and poor enforcement of penalties are major.
- According to this study major difficulties of while assessing income and making tax plan are complicated tax procedure, need of unnecessary documents, expectation of personnel monetary benefits and lack of relevant tax information.
- 56% of respondents said that the tax exemptions, rebates deductions and concessions granted to the company under the existing law are adequate.
- According to study 100% respondents maintain their proper books of accounts.
- According to this study major reasons for widespread evasion of income tax in Nepal are high corruption, lack of fine and penalties, inadequate accounting, auditing and investigation and complicated tax procedure.
- According to this study major methods of avoiding tax evasion and promoting tax planning are educating tax payers by training, setting and monitoring tax collection target, adopting reasonable tax rates and incentives to regular tax payers.
- According to this study 30% of the total respondents said that income tax Act. 2002 is sufficient to support tax planning.
- According to this study major demerits of income tax Act. 2002 are unclear rules, regulation, section, and subsection to understand by tax payer, lack of covering the loopholes in tax law, high tax rate and regular cut-up incentives and rebate as compare with income tax Act. 1974 A.D.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with overall findings of the study, its conclusion and recommendation and area of far research. The next attempt in this chapter will be made for the suggestions on the basis of findings. This chapter is subdivided into summary, conclusion and suggestion.

5.1 Summary

Tax planning is defined as a plan whereby the tax payers make use of all the concession or facilities available to him. Under tax law and pays the minimum possible tax. It is an art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concession, allowances and relief's provided for in the tax law. Tax planning is one of most important functions of management. It is the new and innovative concept and it requires technical and critical mind to plan tax so that tax burden can be minimized by using all the weapons given by the laws. Due to over influences of tax evasion and avoidance, most of the companies has ignored tax planning. Tax evasion and avoidance discourage by the tax planning. Tax planning is very important for every business organization, because it helps to reduce tax liability in legally and ethically.

The study absolutely has some limitation but such impact will not affect usefulness of the study in a significant manner. Lack of trained manpower for the application of tax planning, complication in tax law, term of language,, section and subsection use of tax revenue by the government, stable system of tax planning are main problems of this study.

The first chapter with the general background of the study, objectives of the study, statement of the problem, significance of the study, organization of the study, research methodology and limitation of the study. The main objectives of the study are to analyze the tax planning and its applicability system in

Nepalese industries. In addition, offer to Nepalese organization to apply tax planning based on the above study.

The second chapter included that the review of the related books, thesis, article, rules and regulation etc. which include the conceptual frame work on the different views of different writer, books and articles. The conceptual frame work sheds lights on concept of tax planning, tax avoidance, tax evasion tax management. It attempts to explore the scope of tax planning under income tax, Act, 2002 as strategic tax planning and operational tax planning. Selection of the business, selection of products, selection of location, selection of sources of capital etc. are the areas of strategic planning. On the other hand acquisition of fixed assets, repair and maintenance cost, pollution control cost, research and development cost, stock valuation system, donation, personnel remuneration, etc. are the area of short-term or operational tax planning. This chapter also covers about the situation of income tax evasion, avoidance and delinquency. At last, review of literature has attempted to review the study is done so far on the related topic of tax planning and its applicability in Nepalese industries.

The third chapter related with research methodology followed in this study. It has included the research design, nature and source of data, procedures of data collection, procedure of data presentation and analysis and statistical tools used. Most of the data and information of the study were concerned with the opinion, experience; interview and performance of the respondents in additional, secondary data were not included in this study. Basically, the sources of primary data are opinion survey through questionnaire and interview field visit and mailing information of the respondents.

The forth chapter is the most important in this study. Because all the new innovation are included in here, all the information about the tax planning are here and all these findings to help meet the objectives of this study are also included in this chapter. This chapter introduces the 50 sample units of private companies and public companies relating to various sectors like production,

finance, investment, trade and commerce about tax planning behavior. The collections of each questionnaire are presenting and analysis in forth chapter.

5.2 Conclusion

It can be explained that no one of respondents states their weakness. All of the respondents that they are always on the favor of tax law. They always support the norms and value of the tax law. Most of the respondents said that the government has provided various facilities to them on the law but the government has not been able to implement that system of in practical life. The government has made strict punishment for those who break the tax law but there is less moral support and subsidies for those who respected the law. The government always looks them as the means of revenue collection but the government has not helped on their operating problem, strategic problem and existing problem but active for charging tax.

With respect to the possibility for modernizing of tax planning, all the respondents suggested many areas to be reformed from administrative as well as corporate level or by tax payers. The following are the existing problem that has to be reformed to make tax planning effective and productive.

- Problem of tax evasion and avoidance
- Lack of adequate incentives, facilities, rebates, grants, deductions, allowances provided for tax planning.
- Poor-record keeping system of tax payers
- Poor training opportunities to tax officers as well as tax payers
- Lack of motivation in tax personnel
- Existence of corruption
- Lack of adequate information system
- Complicated tax law
- Lack of tax education
- Deficiencies in tax policies, laws and administration

Most of the respondents kept their statement in the prescribed books of account for the effective and proper calculation of taxable income. This system helped

them for tax planning as well as uses to support to the government for collecting revenue but they claimed that the government has not been able to collect adequate revenue from the public according to the target due to weak tax administration. There is urgent to educate tax payers by training so that they can easily understand the concept and views of tax Act. Then, they can preplan for tax planning by utilizing maximum facilities provided by the law. Similarly they suggested to the simplification of tax law in terms of language, section, subsection etc for the easy adjustment of tax liabilities.

With respect to the responsible factor for poor taxpaying habit of the Nepalese people, the opinions of the responding group were disassociated. In ranking the opinion of the respondents together, 'lack of tax education', 'complicated tax law ' and lack of incentives to the tax payers were found the corresponding first, second and third prioritized responsible factors for poor taxpaying habit.

With respect to the poor taxpaying habit tax payers in the process of income tax assessment, they accepted that they were feeling some sort of difficulties in that process. While ranking the views of respondents, complicated procedure expectation of personal monetary benefit by tax personnel and high expectation of taxable income by tax personnel than reality were the corresponding prioritized difficulties felt by the tax payers in the process of income tax assessment

Regarding the wide-spread evasion of income tax majority of the respondents accepted that there was wide-spread evasion of income tax in Nepal.

Concerning the complication of tax planning, respondents explained that they had been facing many problems of tax planning in their companies. They complained that the section and sub section of the act are not clear. The act has been written in vast and confusing language. Tax planning needs technical and critical mind. As a result, most of the tax payers are not able to take benefit of tax planning some are taking advantage of tax avoidance.

In respect to the methods of tax evasion , the opinions of the respondents were 'submission of false statement', 'non maintenance of proper accounts' and 'non

disclosure of income from different sources' were found the respective prioritized method of income tax evasion.

With respect to the suggestion for educating tax payers for increasing their tax consciousness for voluntary compliance, 'providing tax information desk service to tax payer', 'introducing tax education in school curriculum' and 'providing incentive and recognition to tax payers' were found that first, second and third respective prioritized techniques to be implemented.

In addition, income tax is administered directly by Inland Revenue department. It is responsible for the implementation and administration of the Act. The government is the highest authority of the tax administration. The Act has empowered the government to establish tax officers of the department and prescribed their jurisdiction by notification in Nepal gazette to facilitate the department in fulfilling its responsibilities. Thus we can say that the rules and regulation of tax administration are very systematic in theory but incomplete in practice.

On the other hand, there is increasing habit of tax evasion in some tax payers but the administrators do not control such behavior. They also participate for the benefit of such evasion. So, they make individual discrimination for tax evasion and avoidance because of the negligence and support, tax evasion and avoidance behavior are increasing. It means that there is vast gap between theory and practice. Some tax payers search for loopholes of the tax law and take advantages of them. This is legal but unethical which also affect the revenue of the government this means that tax payers try to reduce tax liabilities at any cost.

Similarly, the act has provided tax planning facilities to avoid illegal and unethical behavior of tax payers but the tax payers feel the difficulties to complete the criteria of the tax planning. They have to bear more expenses for labor, material, transportation, fuel, go down, insurance, and so on but could not get the price according to cost it means that they are obliged to charge more cost which the general people could not afford.

As the matter of fact Tax law is not clear and special for on terms of language, section, sub-section etc. every section has been described by the presiding and sub-section. Such types of confusion in tax law make puzzle to the tax payers. They had to call for the tax expert even for general tax planning.

In respect of duties of tax payers, the Act has not categorically specified the duties of the tax payers. However to enjoy the rights as per the Act, they are required to fulfill some duties to register and get permanent account number (PAN) to follow accounting method prescribed by Government to pay tax within stipulated time and place, to pay tax in installments or deduct tax at source and so on but the tax payers try to fulfill their duties by false matter of statement.

The government of Nepal has thus rationalized the corporate tax rate structure so that it is now compatible with many other low tax rate countries. In fact, Nepal has fallen in the line with the general international trend of lowering down the corporate tax rate. This is a step in the right direction.

Section 15 and 16 of industrial enterprise Act 1992 provide for tax benefits to industrial only. These non-industrial units such as banking, insurance and trading companies are not entitled to any tax benefits. Even among industrial units, 100% tax exemptions are granted to those engaged in activities as also to cottage industries. Industrial units including manufacturing, energy based and mining industries are also entitled to a number of tax concession.

In addition to its relevance on strategic planning tax consideration is also required in project planning, i.e. in decision relating to expansion or diversification of business, make or buy, acquisition of fixed assets, disposal of fixed assets replacement, repairs and maintenance etc.

Out of 50 respondents 80% of respondents have some knowledge of tax planning and remaining 20% of them are unknown about tax planning. The respondents, familiar with the tax planning have properly utilized every benefits provided by income tax Act of tax planning. The main reasons of not following tax planning are unclear concept of tax planning, hard to follow the

method of tax planning, lack of qualified manpower. All the tax payers use self-assessment for submitting tax liabilities.

The challenges that has to be addressed by tax administration for tax planning reform in Nepal consist of

- Providing more and more incentives and increasing tax coverage or tax net and decreasing tax rate.
- Development of effective tax payer information system
- Reduction in assessment delays
- Reduction in collection delinquency
- Make the improvement of voluntary compliance of tax payer
- Effective personnel management

With respect to other suggestion for tax planning reform; reform in tax administration, simplification of income tax Act 2002, need of co-operative attitude of tax personnel towards tax payers, comprehensive training to tax personnel and strict monitoring of tax personnel were receive from some of the respondents.

In conclusion, every company accepted that they were under the rules and regulation of tax law. Similarly, they mentioned difficulties of tax Act and said that tax evasion and avoidance was made by the support of tax administrator. There was vast different in the treatment of large and small companies even for the same matter. Indeed, they accepted that there was vast gap between concept and applicability of tax planning in Nepalese companies since a good tax policy cannot come out without good tax administration. It is very urgent to adopt many measures to reform the tax administration and tax planning in a drastic manner. Reform in tax administration leads to the tax planning reform also it is also crucial to reform tax administration on all fronts, including the organizational structure, tax personnel system, tax incentive, package, tax procedural automation and tax appear system, the tax administration should be friendly and service minded to tax payers.

5.3 Recommendation

The forgoing discussion shows that Nepalese companies in general have been taking advantage of tax benefits in their strategic planning, project planning and operational planning decision. However there are still a number of companies which have fail to do either these companies do not have efficient tax planning system or because they were the loss making companies therefore, could not get the advantages of tax benefits. The degree of tax planning depends upon the strategy and plan made by the company. Large Scale Company can spend more in tax planning activities to be made by tax experts. Only the rules and policies could not be enough for the collection of correct tax revenue there should be regular supervision and support of the government, so that any problem seen at the time of implementation of tax planning could be easily solved.

On the basis of the research study, the applicability aspect of tax planning in Nepal is progress though it has not achieved its objective as intended, so there are still many problems which are facing by the government and business sector to apply tax planning successfully. There are so many areas that have to reform very immediately for the betterment of government as well as tax payers. An attempt is made here to offer some important suggestions which have emerged from study. They are as follows on the basis of major findings and conclusions, following recommendation have been made for applicability of tax planning in Nepal.

1) Reform in Income Tax Policy

The financial plans and policies of the government should be developed in such a way that promote the investment climate and tax planning activity and discourage the tax evasion and tax avoidance. The major tax planning reform under income tax plans and policies are recommended as follows.

- Different tax rate for resident and non-resident companies. There should be a sort of discrimination in tax rate to resident and non-resident tax payers. It is recommended to develop the policy to support and

motivate resident tax planner. We felt that in Nepal also tax rate should be higher, say 35% in case of foreign companies as against 20%-30% in case of domestic companies because of difference in the scope and coverage of the taxable income of these two groups of companies. A domestic company pays tax on the world wide income, while a foreign company is required to pay tax on income earned in Nepal only so tax rate should be higher than domestic companies.

- Tax rebate to non-industrial company set up in industrially back ward areas. Tax plan and policies is to be developed to provide the tax planning facilities also to the non-industrial companies' located industrially backward areas.
- Tax incentives for revival of sick units. Government tax plans and policies should immediately reform to enhance the revival of sick units providing fiscal, financial and technical incentives.

2) Reform in Income Tax Law

Legislation should be for compliance, not for defaulters. Tax law must be simple, unambiguous and certain. It should support to the honest taxpayers and punish to the others. Tax planning activity is done under the provision of tax law. The following suggestions have been made for reform of income tax law and to support the tax panning.

- Simplify language of income tax Act 2002 A.D. for supporting tax planning activity.
- Grant more tax incentives for the promotion of corporate sector.
- Impose maximum penalty for non-maintenance of accounts.
- Minimize discretionary powers given to tax officers.

3) Reform in Income Tax Administration

Tax planning reform can be effective by reforming income tax administration. The following recommendation for reform

I. Minimize Tax Evasion and Avoidance by:

- Plugging legal loopholes and effective enforcement of law.

- Control of illegal business activities especially at open borders.
- Effective control of corruption in tax personnel.
- Make concentrated efforts to bring evaders in to taxation net.
- Given handsome rewards to informers.
- Establish intelligence information section in all tax offices.

II. Educate Tax Payers for Effective Enforcement and Better Compliance by:

- Conduct research and surveys about tax payers and their attitude.
- Include tax education in secondary school curriculum.
- Provide assistance service to tax payers in tax offices.
- Encourage friendly and helpful behavior of tax personnel and better public relation.
- Use tax payers associations like chamber of commerce for educating tax payers.

III. Computerization

The tax administration should be automated in order to facilitate the day to day work of the tax administration and also to minimize physical contact between tax payers and tax officials which may reduce corruption. The technology is changing it is the challenge of 21st century so in the record keeping computer system and networking program must be developed and linked so as to apply tax planning in industries.

IV. Increase the Tax Paying Habit of Nepalese People By:

- Providing more incentives and recognition program to honest tax payers.
- Effective tax education program should be launched.
- Developing cooperative attitude of tax personnel.
- Simplification of tax law, procedures and forms.

V. Better Personnel Management by:

- Evaluate personnel on the basis of predetermined objectives.
- Motivate tax personnel by a proper system of incentives.

- Minimize corruption in tax administration by using built in check and balance.
- Take action against corrupt person.
- Keep up to date record of income, property and other assets of tax personnel their family and near relative.
- Do heavy publicity of corruption case.

VI. Improve Collection Performance by:

- Setting and monitoring tax collection target in each office.
- From enforcement of penalties.
- Simplifying collection procedures.
- Prompt refund of over payment of tax
- Making tax payers aware of their rights, obligations and consequences of failure to comply with tax law.
- Exercising greater supervision over tax staffs

VII. Develop effective Taxpayer Information System by:

- Encouraging assessments on the basis of accounts and records.
- Developed multiple sources of information as suggested.
- Develop integrated statistical record system.
- Make tax administration information conscious.

4) Recommendation to Tax Payer or Tax Planner

By supporting all the summary and conclusion, we found that tax planning is done by each and every company but degree of tax planning depends upon the strategy and plan made by the company. Large scale of company can spend more in tax planning activities made by tax experts. Nepalese companies in general have been taking advantage of the tax benefits in their strategic planning, project planning and operational planning decisions. However, there are still a number of companies which have fail to do either because these companies did not have efficient tax planning system or because they were the loss making companies and therefore could not get the advantages of tax benefits.

There should be regular support and supervision of the government so that any problem seen at the time of implementation of tax planning could be easily solved. Each and every organization has great scope of tax planning to be grasped for that their system structure, plans and policies should be developed as per the requirement of tax planning reform. The following points are recommended to all the organization to take tax planning benefits:

1. Selection of Business

Nepalese organizations or tax payers are not very familiar about which types of business organizations have to pay more tax, moderate tax and which is tax exempted. So it is recommended to the investor and entrepreneur to think seriously while establishing a business.

2. Selection of Product

It is also recommended to select or to give more priority to those products that can take tax benefits generally, product of basic utilities is requested to be produced than luxurious products.

3. Selection of Location

Investors and business organizations should have to give more priority to establish their business in undeveloped area to tax benefits as far as applicable. In other words, all the business units should not be centralized only in the developed area.

4. Selection of the form of Organization

Basically small proprietorship organization regarding basic utility services and those usages domestic inputs are highly recommended to be established to take more tax planning benefits.

5. Selection of Sources of Capital

Large amount of capital should be collected by issuing bond, debentures, loan etc. then the share capital to take tax planning benefit. In other words, debt

equity ration should be high to promote the interest of share holders by paying low tax.

6. Selection of Market

More priority should be given to the special industrial established in special economic zone for enhancing export trade, information technology to gain more tax planning benefit.

7. Merging of Business

It is recommended to establish industrial units. In case of running business, merging technique should also be taken into consideration to take tax benefits as far as possible.

8. Leasing and Buying

It is also recommended to the investor and business firm to consider effective decision about buying or leasing the assets to take the high tax planning benefits.

9. Timing of Activity

Tax panning should be done within the time frame so it is suggested to take the maximum tax facilities by doing the expenditure within the valid time. Moreover, investor and business units should make schedule of future business expenditures with the objective of saving maximum amount of tax.

10. Others

There are many more activities recommended to be done by business organizations first of all they have to develop up to date information intelligence system to supply the necessary data for tax planning whenever required secondly, they must develop their system, structure, competencies to grasp the tax planning advantages. They have to develop separate tax section headed by a tax executive under finance department particularly in large and medium companies to discharge all functions relating tax management including tax planning.

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- d. Lack of qualified manpower []
 - e. Others (please specify).....
5. What factors should be considered to make tax planning practicable?
- a. Simplifying tax law []
 - b. Reforming tax structure []
 - c. Promoting the social value of tax payers who pay the tax honestly []
 - d. Increasing administrative efficiency []
 - e. Covering all the loopholes in income tax law []
 - f. Decreasing corruption practices []
 - g. Penalizing tax evader and tax avoider []
 - h. Increasing taxpaying habit of the people []
 - i. Implementing one window policy for all allowance []
6. Does your company avail of the maximum possible exemptions, concessions, rebates, allowance etc.?
- a. Very little [] b. moderate [] c. As much as possible []
7. Do you think that tax evasion and tax avoidance practices are root cause of not applying tax planning?
- a. Yes [] b. No [] c. No idea []
8. Is tax planning is suitable for minimizing tax liability?
- a. Yes [] b. No []
9. Do you believe that tax planning is being misused as tax evasion and tax avoidance in Nepal?
- a. Yes [] b. No [] c. No idea []
10. Which assessment procedure do you use for submitting the tax liability?
- a. Self – assessment []
 - b. Jeopardy assessment []
 - c. Amended assessment []

11. Following are the important area of strategic planning please indicates whether your company takes tax consideration in these areas.

Areas	Yes	No
a. Location of business	[]	[]
b. Nature of business	[]	[]
c. Merger and amalgamation	[]	[]

12. Following are the important areas of project planning. Please indicate whether tax consideration is given in these areas by the company.

Areas	Yes	No
a. Expansion and diversification of business	[]	[]
b. Make or buy decision	[]	[]
c. Acquisition of fixed assets	[]	[]
d. Disposal of fixed assets	[]	[]
e. Modernization, replacement, repairs	[]	[]

13. Following are the important areas of operational planning please indicate () whether tax consideration is given in these areas by the company.

Areas	Yes	No
a. Choice of method of accounting	[]	[]
b. Production decisions	[]	[]
c. Marketing decisions	[]	[]
d. Personnel remuneration	[]	[]
e. Avoidance of penal, fines and prosecution	[]	[]

14. What factors responsible for poor tax planning habit of Nepalese people please tick

() any one from the options.

- a. Complicated/ unstable laws []
- b. Lack of tax payer education []
- c. Improper utilization of resources collected by government []
- d. Poor enforcement of penalties []
- e. Unhelpful attitude of tax personnel []
- f. Lack of sufficient branches of tax office []
- g. Lack of more incentives to tax planning []
- h. Others (please specify).....

15. In your experience does a taxpayer face difficulties in the process of income tax assessment?

- a. Yes []
- b. No []
- c. No idea []

16. What types of difficulties were felt by tax payer please (✓) any one of them

- a. Complicated procedure []
- b. Expectation of personnel monetary benefit []
- c. Need of unnecessary documents []
- d. Lack of relevant tax information []
- e. Unstable tax laws, rules and regulations of government []
- f. High expectation of taxable income by tax personnel than reality []
- g. Lack of cooperation of tax administration []
- h. Consume unnecessary time []

17. Where the tax concessions, rebates, relief, incentives granted to the tax payer under the existing tax law adequate?

- a. Yes []
- b. No []
- c. No idea []

18. Does your company maintain proper book of accounts?

- a. Yes []
- b. No []

19. What are the reasons of widespread income tax evasion in Nepal?

Please (✓) any one form the options.

- a. High corruptions []
- b. Lack of effective fine & penalties []

- c. Inadequate accounting , auditing and investigation system []
- d. High rate tax []
- e. Administrative inefficiency []
- f. Wide spread illegal business activities []
- g. Complicated procedure []
- h. Loopholes in income tax law []
- i. Political stability []
- j. Others (please specify)

20. How tax evasion behavior of Nepalese tax payers can be avoided? Please (✓) any one form the options

- a. Educating tax payers by training []
- b. Setting and monitoring tax collection target []
- c. Exercising greater supervision over tax staffs []
- d. Adopting reasonable tax rates []
- e. Fine and penalties []
- f. Incentives to regular tax payers []
- g. Effective utilization of collected tax []
- h. Sending regular reminder notice []
- i. Simplifying tax law in terms of language, section, subsection []

21. What are the major problems of tax administration to support and reform tax planning in Nepal?

- a. Weak tax administration []
- b. Low quality of life, social value, moral value of Nepalese people []
- c. Lack of motivation to both tax personnel and tax payers []
- d. Political instability and change in tax law Act. []
- e. Lack of experts in tax management []
- f. Lack of training facilities to tax personnel []
- g. Lack of sufficient incentives to tax payers []
- h. Miss use of power by tax administrators []

22. What are the essential factors for making tax administration and tax planning effective?
- Tax education to tax payer []
 - Effective reward and punishment system []
 - Simple tax procedure []
 - Better information system []
 - Identification and clear-cut advertisement about tax incentives []
 - Extra incentives and facilities to the honest and regular tax payer []
 - Simple tax law []
 - Better public relation by tax personnel []
 - Others (please specify).....
23. Do you think, income tax Act, 2002 is sufficient to support tax planning?
- Yes []
 - No []
 - No idea []
24. What are the major demerits of income tax Act, 2002 regarding the scope of tax planning?
- Unclear rules, regulation, section and subsection to understand by tax payers[]
 - Regular cut up in incentives and rebates as compared with income tax Act 1974[]
 - Lack of covering the loopholes in tax law []
 - Not mentioning about the declaration of tax personnel property each year[]
 - High rate of tax []
 - No clear cut provision to develop check and balance system []
 - Lack of reducing discretionary power of tax officers []
25. In your opinion, what are the areas of tax panning reform in Nepal?
- Reform in tax administration []
 - Reform in corporate structure , individual level []
 - Reform in tax law []
 - Reform in tax plan and policies []

The end

Appendix-2

List of sample companies

A. Manufacturing companies

- i) Morang sugars mills, biratnagar, morang
- ii) Shree bhrikuti pulp and paper Nepal Ltd. New Bneshwor, Kathmandu
- iii) Bottlers Nepal Ltd. Balaju, Kathmandu
- iv) Himalayan distillery Ltd. Jwaulakhel, kathmndu
- v) Arun banaspati udhyog Ltd. Sunsari
- vi) Shree raghupati jute mills Ltd., Biratnagar, Morang.
- vii) Nepal bnaspati Ghee Udyog Ltd. Kalimati, Kathmandu

B. Trading companies

- i) Bishal Bazar co. Ltd. Shukrapath, Kathmandu
- ii) Salt Trading Corporation Ltd. Kalimati, Kathmandu
- iii) Sakar company Ltd. Tripureshowor, Kathmandu
- iv) National book sellers and publishers Association, kanthipath, Kathmandu
- v) Yeti traders, kamakpokhari , Kathmandu
- vi) Nepal oil corporation, Babarmahal, Kathmandu

C. Commercial bank

- i) Everest bank Ltd. Kirtipur , Kathmandu
- ii) NIC bank ltd. Kirtipur, Kathmandu
- iii) Rastriya baninjya bank ltd. , kirtipur ,Kathmandu
- iv) Himalayan bank ltd. New road, Kathmandu
- v) Kumara Bank Ltd. Putalisadak, Kathmandu
- vi) Nepal investment bank ltd. Dharbarmarg, Kathmandu
- vii) Bank of kathmnanu ltd. Kamaladi, Kathmandu

D. Insurance company

- i) Siddrtha insurance company, kathmandu
- ii) Shikhar insurance company, kathmandu
- iii) Sagarmatha insurance company, kathmandu
- iv) Nepal life insurance company, kathmandu
- v) Surya life insurance company, kathmndu