

Tax Planning and Industrial Growth In Nepal

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RECOMMENDATION

This is to certify that the thesis

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Entitled

"Tax Planning and Industrial Growth in Nepal"

has been prepare as approved by this Department in the prescribed format of Faculty of management . This thesis is forwarded for examination.

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DECLARATION

Hereby declare that the work reported in this entitled "**Tax Planning and Industrial Growth in Nepal**" Submitted to office of the Dean, faculty of Management. TU is my original work. It is done in the form of partial fulfillment of the requirement for the Master of Business studies (M.B.S) under the supervision and guidance of Mr. Ganesh Chaudhari of Kankai campus, Birtamade, Jhapa.

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Abbreviation

%	–	Percentage
B.S	–	Bikram Sambat
A.D	–	Anno Domini (Latin Word)
CBS	–	Central Beuro of Statistics
T.U	–	Tribhuvan University
CA	–	Chartered Accountant
Pvt	–	Private
Ltd	–	Limited
Rs.	–	Rupees
Viz	–	Verse
i.e.	–	That is
MBS	–	Master of Business Studies
No.	–	Number
+	–	Plus
CEO	–	Chief Executive Officer
FY	–	Fiscal year
NBL	–	Nepal Bank Limited

Chapter - I

Introduction

1.1 Background

Money is the instrument by which physical and intellectual property can be stored, transferred of ownership and exchanged as the requirement. Complex requirements make the dependency among the human beings so that they need the instrument to exchange their desired goods and service. The money also required to the government to pay salary to the employees or to do the developmental work and also require to import goods to fulfill the demand of citizen.

The government has many sources to collect the money required to make welfare state such as: internal and external debt, grant, tax revenue, revenue through the public industry and service etc. The revenue of government comes basically from two sources on which: Tax revenue and Non-tax revenue. The revenue which collects through grants, gifts, administrative incomes, business incomes, fines and penalty etc. are non-tax revenue. On the other hand customs, excise, value added tax corporate and personal income taxes etc. are the tax revenue of the government. In the words of Seligman, "Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest at all without reference to special benefit conferred." (Kandel, 2006: 4)

Planning is the importance feature on which future can be felt today if it is correctly applied or processed. Planning is the framework of the future activities on which pre-determined objectives are processed through the best alternatives but it is not hypothetical forecasting which has sufficient supportive evidence to choose the alternative. The formal planning system in a company arises from the necessity of management to conduct the operation of the company

efficiently and effectively. Planning is necessary for the establishment, growth and survival of company. So the 'Tax Planning' is a phrasal word which means that how the future taxes burden can be minimized without any violating the tax laws and rules imposed by the government.

There are many methods of minimize the tax burden: Tax evasion, tax avoidance, tax delinquency, tax planning etc. Tax evasion is the method which reduces the tax burden but it is illegal, unethical uneconomical and also against the law. The way of reducing the tax is non-reporting of income, under reporting of income, making fraudulent changes in account books, maintaining multiple sets of account, over-reporting of expenses transfer pricing etc.

Tax avoidance is the way of reducing the tax burden without actually breaking the law but it is using the loopholes of tax law thus it is against the spirit of law. This method is mostly used by the tax experts who have the too much taxable income. When the government plugs the loopholes, they search of next one. Tax avoidance is the temporary in nature but regularly use in practice because to plug the many loopholes other new loopholes arises. The ways of tax avoidance may: Use of contradictor devices, defeating the genuine spirit of law, twisting of facts, taking only strict spirit of law suppressing the legislative intent etc. Tax delinquency is the technique through which only time value of money is reduced by the different of the payment. Although tax delinquency means the failure to pay tax due to lack of sufficient fund, it also covers non payment at the time of having fund.

Tax planning is only one way to minimize and post pond the tax burden without breaking the law, spirit of law with ethically and economically. Various types of tax facilities are provided in tax laws to promote the investors. Through the proper analyze and use of these

facilities tax burden can be minimized and increase the after tax income. The main objective of tax facility mention in tax act, 2058 is to maximize the after tax income for investors, equitable and sustainable development of country, promote the number of investors and also import the foreign investment for boom economic growth. So we can conclude that only the tax planning, method at minimizing the tax liabilities is a systematic scientific, economic, legal and ethical activity. Which uses of various incentives, concession allowances, and rebates related to futures activities. According to time period and nature of tax facility, there are three broad areas of corporate tax planning viz., strategic planning, project planning and operational planning. Strategic planning is most serious factor of tax planning which impacts the business to the whole life. The area of strategic tax planning as per income tax act, 2058 as regards:

- Selection of business
- Selection of product
- Selection of the form of organization
- Selection of location
- Selection of source of capital
- Size of business
- Selection of market
- Merging of business

The time frame which has medium impact of plan on the profit after tax to the business mentioned in tax act is taken as area of project planning. Acquisition of fixed assets, investment tax credit, concession and allowances, method of depreciation in used etc. are area of project planning. If the planner takes the wrong decision it impacts only the life of the assets not for the whole life of business.

Operational tax planning has short time period impact. One year plan does not totally impact to the next year which may cause of gain or lose of one year after tax profit. The areas of operational planning as per income tax act 2058 are:

- Repair and improvement cost
- Pollution control device
- Research and development expenses
- Stock valuation system
- Donation
- Remuneration of employee etc.

Business is defined as the activities of making, buying, selling, constructing, transporting, producing, service providing etc. for profit. The activities of non-profit organizations are not treated as business because their main objective is social service and operate at break-even point or below. In this study non taxable business are not taken as new business. Business is the broad form of group of industries. Industries take a large portion of business. The central Bureau of statistics has classified industries into the seven groups: manufacturing industries, energy based industries, agro and Forest based industries, minerals industries, tourism industries, service industries, construction industries.

Economic reforms initiated by the government from 1990's have changed the industrial and business environment in Nepal significantly. The ever growing process of globalization, the entry of multinationals into the Nepalese market, the liberalization of imports, and the shift to buyers market have thrown totally new demand on the business firms of the country. To accelerate the growth of numbers and size of industries a number of acts and policies such as Industrial Enterprise Act 1992, Foreign Investment and Technology Transfer Act, 1992, Privatization Act, 1994, Trade Policy, 1992, Labour Policy, 1989 etc. were

formulated and encircled. Income Tax Act, 2058 and Income Tax Rules 2059 also play an importance role for investment in new business. What types of industry is established, when and where are they established depends upon the above act and policies. The investors select the industry and location which gives the most profit after tax, among the available alternatives. Tax planning has also contributed to promote the profit after tax. Demand of product, competitive environment, availability of raw material, positive social relation, availability of qualified labour, facility of repair and maintenance, natural environment, cost of infrastructure, size of market, security, status, barriers of new entrants, tax facility etc. are the main determinant of new business. The business which is feasible through the above determinants gives the maximum profit in short period. Thus, tax planning is a way of reducing or differing the tax burden in the present and foreseeable future. If we able to plan before the establish of business it can contribute more profit than the after plan.

1.2 Statement of the Problem

In Nepal Industrial Enterprise Act, 2018 B.S., Industrial Enterprise Act, 2031, Industrial Enterprise Act, 2038 and Industrial Enterprise Act, 2049 provided many types of tax facilities to the industrial sector. Due to these facilities provided to industrial sector in Nepal there was the needed of expert knowledge to find out the actual facilities provided and to act as per the law. This necessity of tax expertise and tax research of that time introduced the concept of tax planning. After 1990's the trend of tax system revised. Now there is fashion of reducing the tax facilities provided to the industrial sector. "Low rate wide net", is the main slogan of the current taxation system in the world. (Karnel, 2006 : 341)

Tax planning and new business emerge are interrelated. Tax planning is based on reducing the tax liabilities by using the given

facilities in laws and when the tax liabilities becomes low, the rate of investment in business becomes high. Hence we can say that tax rate is inversely proportional to the investment in new business. Tax facilities is only a factor to determine the establish of new business. The other factors which determines the business investment are stability of government, policies initiated by the government, political situation, international relations, legal environment, technological environment, facility of market, economic condition, required infrastructures to the business, required raw material etc. Different tax facilities have been introduced and renewed on timely basis with a view to mobilize internal resources for the development of industrial sector and to contribute economic growth of country but the result becomes on contrary. Due to frequency amended in Tax Act and Rules, the goal and objectives of tax planning for promoting the existing industries and plan of establishing the new industries falls on shadow so that such types of planning increases the cost rather than saving the tax amount. Through this research study answers of following problems are being tried to search :

- What are the problems that faced by the tax payer in application of tax planning ?
- Why do tax payers not properly use the tax planning ?
- How does strategic tax planning impact the investment on new business?
- Does tax facilities provided in Income Tax Act, 2058, Industrial Enterprise Act, 2049 adequate for stimulating the industrial development?

1.3 Objectives of the Study

Nepal government has narrow range of revenue so that it has not enough funds for the expenditure of development. Income of government mostly uses in administrative expenditure so that Nepal

moves backward for the development if it does not get foreign aid. Most of the small tax payers do not come into the tax net and large tax payers use tax evasion and tax avoidance rather than tax planning so that least numbers of tax payers may pay the tax amount without deduction the given facilities due to lack of expertise knowledge. Inland Revenue Department is also equally responsible in tax avoidance and evasion because it does not conduct its function timely with honestly.

The main objectives of this research are:

- To explore the reasons of unused of tax planning.
- To identify the problems in application of tax planning.
- To analyze the relationship between tax planning and industrial growth in Nepal.
- To examine the facilities provided in Income Tax Act, 2058, Industrial Enterprise Act, 2049 are sufficient or not.

1.4 Significance of the Study

Tax planning is the legal and systematic way to minimize the future tax burden without tax evasion and tax avoidance. This study may promote to implement tax planning in the behavior of tax payers. It also tries to find out percentage of investors in business who prepares the tax plan in advance. Tax administrators may also initiate ideas how to bring the large numbers of small tax payers within the tax net. Inadequacy in Income Tax Act, 2058 in case of investment in new business has also tried to analyze. Government has different priority towards the different business because there is variation in tax rate among the trading company, manufacturing company, constructing company, Service Company etc. Through the provision of different tax rate and tax facilities to the different sector of industries, it can be said that the play ground may not easy for all type of players. It can be

understood that the government has given most priority to the company related to infrastructure development. This study has tried to analyze, the investors, requirements and government policy. Not only this it also adds a new topic for the further research to the researcher to find the more reliable and important knowledge between the tax planning and new business for industrial revolution in Nepal.

1.5 Organization of the Study

The study has been systematically organized into five chapters and each chapters related and contributes directly and indirectly for the findings of tax planning and industrial growth in Nepal. The title of each of these chapters are as follows:

Chapter I : Introduction

Chapter II : Review of Literature

Chapter III : Research Methodology

Chapter IV : Presentation and Analysis of Data

Chapter V : Summary, Conclusion and Recommendation

1.6 Limitation of the Study

As every study is followed by some limitations, this study is also not free from limits. The limitations regarding this study can be pointed as follows:

- i) Resource and time factor limits the study.
- ii) Most of the problems stated in the study are based on secondary data.
- iii) This study used the data collected from sampling method. The samples which are selected may not represent the total

population show the result of the study may not absolutely reliable.

- iv) This study based on Income Tax Act, 2058 and Industrial Enterprise Act, 2049.
- v) The quality of questionnaires, capacity of researchers, behaviors of researchers to the respondents, time given to the study, bounded of time and cost, title of research also major components that may change the result.
- vi) This research covers only Kathmandu area and covers the data acquired from five years period.

The research topic '**Tax Planning and Industrial Growth in Nepal**' is vague itself Tax planning is also a factor that affects for the establishment of new industry. Now, Nepal has not properly implementing the Tax Act and hence to prepare the tax plan less beneficial than using the tax evasion and tax avoidance to the tax payers. But other factors such as: government policy, political situation, competitive position, pace of change in technology, cost of capital, availability of labour and raw material, required infrastructure etc. are the major determinant factors for the establishment of new industry. The word 'Business' is vague but in this study it has been used as the synonym of industry which have to pay the tax from their taxable income.

Chapter – II

Review of Literature

This chapter will review theories and act, rules developed in the context of the study of tax planning and industrial growth in Nepal. Besides, it also documents the empirical studies as well as on the basis of these theories act, rules and policy. A conceptual framework will be suggested as a guideline for the present study.

2.1 Theoretical Framework

From the origin of government the term ‘Tax’ had also come together to recover the government expenditure. In the Lichhabi period, the main source of revenue of the government was tax. There were three types of tax (Tri-Karas): Bhaga (Tax on agriculture), Bhoga (tax on lives stock) and Kara (tax on trade). Tax was imposed on other products such as : forest product, mine, land and others. Ansubarma, one of the kings of lichhabi dynasty, imposed water tax and religious monument repair tax. On agriculture, different rate of tax imposed on the basis of fertile capacity of land.

In Malla period, there were taxes related to land, trading etc. Jayasthiti Malla imposed taxes on cremation (Daha Sanskar) and caste purity. In Shah period also there was contribution of tax system of Malla period based on land and trade. After unification, different types of tax like land tax, transit tax, forest product tax, mining tax, market duties were levied. In Rana period, the main sources of government revenue was land tax, customs duties and excise. The tax system was based on contract and Amanat. Jimmawal, Mukhiya, Dittha etc. were the person who need to collect the tax. Sanads and Sawals were the laws guiding the tax system. Lagati and Hasawali were two types of revenues.

After the drawn of democracy, the first budget was introduced in 2008 B.S. After that so many reforms in tax system are carried out in Nepal. Different types of tax laws were introduced and abolished. At first, government of Nepal released Finance Act, 2016 feeling the necessity to impose tax on business profit and remuneration.

To determine such taxes and to realize them, business profit and remuneration ordinance 2016 had released. Therefore in the year 2017, Business profit and remuneration Act, 2017 came into effect. But this act was not so profound and explanatory. This act, which was total 22 articles, authorized that the tax could only be imposed on profit generated from trade and remuneration from employees. Since, this act did not work well, another Nepal income Tax Act, 2019 came into effect in the year 2019 by completely dissolving the act, 2017. This act had 29 articles in total. Nepal government formulated Nepal income Tax Rules 2020 for implementation at just aforementioned tax act.

Nepal income Tax Act, 2019 not only included the trade profit and remuneration within the tax bracket but also included profession, house and land, rent, investment, insurance and other related items. This new act made such provision that tax payer could make mathematical correction and pay the tax in installments. Later on Finance Act, 2023 made such provision that there would not be tax imposed on agriculture and agricultural products.

But, later on Finance Act, 2030 imposed tax on agriculture. Nepal income Tax Act, 2019 got its first reformation in 2029. Thereafter knowing the necessity of change and modernization in Income Tax Act management according to the prevailing situation of country. Nepal government released new income Tax Act, 2031 by repealing Income Tax Act, 2019.

This act consisted of 60 articles. This act had been amended eight times till, 2049. This reformulated law was dissolved in 2058 making a new income Tax Act, 2058.

Income Tax Act, 2058 was enacted with effect from 2058/12/19, Monday, with regard to tax assessment and collections relating to accounting year 2059-60 July. The objectives of the new act as given by policy makers are as: (Karnal: 2006, p.29)

- To bring all the income generating activities within tax net,
- To increase the base of taxation,
- To bring all the income tax related provisions within one act,
- To make income tax related provisions clear and transparent,
- To interlink Nepalese tax system with the tax system of other countries,
- To make tax system based on account,
- To minimize tax avoidance and tax evasion,
- To make tax system compatible to modern economy,
- Reducing the scope of discretionary interpretation of the tax administration there by ensuring simplicity, informality and transparency,
- Separating administrative and judicial responsibilities,
- Defining the power as well as authority of the tax administration,
- Distinguishing tax payers' violation of civil duties and criminal offences, and
- Further streamlining the appeal system by making it mandatory for the tax payers to file an objection with IRD of Taxation before appealing to the Revenue Tribunal.

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

In economics written by Koutilya explained that before the starting of Lichhibi dynasty there was beginning of industrial growth in Kathmandu valley: At that time the industries were home based and related to Agro and forest based industries, architecture industries, industries of producing utensils of mud, Metal industries and Paper industries, Garment industries etc. In trade sector, there were many trade paths to import and export the products such as: Baishal and Srabasti to Nepal, Uttarpath to Nepal etc. on the evidence of Aahat coin and Kushan king. There was previously development of trade in Nepal than the Lichhibi dynasty.

In Malla dynasty the pace of industrial growth came up to fulfill the various demand. For this, Jayastithy Malla, the works were categorized according to their caste for economic of scale. Metal industries, Furniture industries, Agro-based industries, Mine industries, Paper industries etc were main industries. Tibbet was the main market to export and import of product. Nepal had surplus trade with the Tibbet within the Malla dynasty. At the unification period there was no significantly changed in industrial sectors. Only reformulated of previous industries and did not able to promote the foreign trade.

Industrialization is a comparatively new phenomenon in Nepal. The Biratnagar Jute Mills set up in 1936 A.D. marked the beginning of organized industry in the country. In the years that followed, industrial growth was accelerated. Many industries were set up in Biratnagar in collaboration with Indian businessman.

Due to the high demand of industrial product in Second World War, large numbers of industries were set up and were able to get profit

in short time period but not survived after the world war recession period and then foreign capital was withdrawn. Industrial development in Nepal, however, started getting regular attention of the government under the aegis of development plans after the dawn of democracy in 1951 A.D. several industries were established in the public sectors mostly with the financial and technical assistance of USSR and China continued till the end of sixth plan.

Due to the global change in the concept of privatization, the industrial development strategy of the government, however, changed after mid 1980s. The government then shift its development strategy from state-led development to market-led open economy. As a result, many of the public sector industrial units were privatized. In these days the government plays the regulatory, promotional and motivational role for industrial development.

2.1.1 Ways of minimizing the tax liabilities

No one can get ride of from tax liabilities who have the taxable income but he can minimize the tax liabilities legally and illegally. The incentives provision in Tax Act, Rules and another related act, given by the government to motivate the private investors to invest in industrial sectors to drive the country from state-led to market-led can be used to reduce the tax liability is only a way of reducing the tax liability without breaking of spirit of law, economically and ethically is possible only through Tax Planning. On the other hand, the investors who have taxable income but they do not pay tax based on tax acts and laws by breaking the spirit of law, is another way or reducing the tax liabilities. It is the way by which goal of nation such as: balance development, economic stability, ethical co-ordination, state of legislation etc. falls on shadow. Low income of government means the least expenditure for the social and economic development; Tax Evasion, Tax Avoidance, Tax

delinquency etc are the method of minimizing the tax liabilities without follow up the Tax Act and Rules.

Tax Evasion is a method of reducing the tax liabilities which involves to hide incomes illegally or concealing the particular income or of particular source of income, or manipulating the account by overcasting the expenditure or understating the actual or real incomes with a view to reducing and thus taxable income and tax liabilities. Tax evasion is thus illegal, unethical as well as uneconomical and it is against the law. Tax Avoidance is a way of reducing the tax liability without breaking the provision of law; however, under this method tax liability is reduced by taking advantages of certain loopholes in the tax law and rules. Reducing Tax liability under this method is very short in nature. The government plugs the loopholes as and when it is known. Tax avoidance thus is not illegal but it is against the spirit of law. (class hand-out: 2006)

2.1.2 Nature of Tax Planning

The Expert Group on Tax Reform Planning generally agreed that the developing countries should undertake long-term continuous tax planning. It was recognized that while the appointment of ad-hoc committees and commissions helped to mobilize special and diversified skills, and that such bodies were especially useful at particular times, that practice usually suffered from lack of follow-up measures and of evaluation of the progress made. Continuity in tax planning has the advantage of providing an integrated framework of decision making in the field of tax policy, legislation and administration.

The level at which tax planning is carried out is relevant to its success. The Expert Group believed that tax planning needs to be undertaken at the highest level. It should also preferable be separated from the day-to-day functions of tax administration, though it should not ignore that experience as a mutual feed-back is essential. Such a

separation would enable the tax planning unit or officials to formulate a wider and long-term prospective.

Tax planning should concern itself with long-term revenue projections within the framework of the assumptions, goals, objectives and fiscal implications of a national development plan, evaluation of the economic effects of the tax structure and of specific taxes and consequently, replacement of taxes or administrative procedures having adverse economic and social effects. Although tax planning should be essentially forward looking, it should also take account of short term needs of revenue and of development policy and administration.

The process of Tax Reform Planning should be continuous but it should be free of substantial rigidities in its approach. Where economic planning is carried out in a democratic framework, both development planning and tax planning need to be flexible. Tax planning is to be considered as a subsystem of the over-all development planning and its strategies; it is therefore naturally subservient to the set of economic and social values embodied in the development plan. In democratic societies the pace and direction of development often depend on political and substantive harmony between the legislature and the executive. Many tax plans have failed to materialize owing to lack of adequate support in the national legislatures. Similarly, tax planning may have to adjust itself to the new philosophies of new governments. Such an adjustment may also temporarily affect the pace of tax planning.

Apart from these problems, it is likely that there may become limitations on long-term planning inherent in the structural characteristics of an economy or arising out of other factors. For example, long term tax planning is often difficult in a highly open economy or where there are critical shortages of skilled manpower or lack of complete and accurate-relevant data. It is imperative that long-term tax planning be dovetailed into development planning. There are

two dimensions to this integration aspect. First, integration can be considered in a technical sense where appropriate analytical techniques of tax policy and administration are harmonized with techniques of economic planning. Secondly, there is the integration of tax policy and development policy. This is a twofold function involving (a) the adjustment of tax policy to a new set of values; and (b) a search for alternative revenue sources within the existing social and political framework.

Tax policy objectives are implicit in a development plan. A typical development plan embodies a variety of economic, political and social objectives. Among these, growth, employment creation and equity are the most relevant objectives for tax policy. It is, however, important to consider the weight attached to different policy objectives and to undertake tax policy formulations within the aggregative framework. It is usually difficult to reconcile the conflict between equity and growth. The Expert Group cautioned that care should be taken to avoid inequities arising out of weakness in collection and administration of taxes. Tax policy can also serve as an instrument for mobilizing the participation of certain sections of the community in the development effort. (United Nations Publications; 1971)

2.1.3 How does Tax Planning Reduce the Tax Liabilities?

Tax planning is the future oriented activities on which an hypothetical format is developed by adjusting the given incentives on taxable income. To develop the tax act and rules, the Tax Experts Committee prepares the tax plan. What types of facilities and incentives required to create the suitable environment for the domestic and foreign investment is the main determinant factor of tax reform planning. Poor incentives provided to investors causes of unemployment trade deficit, adverse impact to the national economy, imbalance development, non use of available natural resources etc. Experts Group analyzes each

components and their impact on taxable income to increase the government funds and to motivate the investors. The facilities are recommended for provision in tax acts and rules at that level by which both the national economy and private investment have in favorable condition.

Tax planning is also prepared by each corporation and the person which and who have the taxable income. There are large numbers of alternative formats to calculate the taxable income. Tax planning is the process by which tax payers are able to select the best one format of calculating the taxable income for long-term as well as short-term. What types of incentives provided in act and what types of business, location, size of business, nature of business, when to purchase of machine, install the pollution control machine, expense for research and development etc. activities are adjusted on favor of investors so that tax planning deduct the tax liabilities on the yearly basis as well as whole to life of business. Hence tax planning equally importance as like as the Business Plan of business. How much importance of tax planning is based on the incentive provided in Tax Act? If there is complicated provision in tax act, it should be prepared compulsory to earn maximum profit after tax because these previsions can't be clarified without expert knowledge.

2.1.4 Industrial Growth in Nepal

Industrialization is an important factor for achieving the basic objective of countries economic and social progress. Industrialization not only provides goods and services but also creates employment opportunities. It facilitates an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. It also acts as vehicle for fostering innovation and technological improvement. Industrial development, thus, has a multiplier effect on the economy. (Panta 2005: 205)

Before 1970 most at the countries followed up the closed economy on which most of required goods and services were produced internally to become self-dependence country. After then the policy of closed economy, slowly moved towards open economy to take the advantages of foreign trade and investment. After the decades of 80th, most of countries followed up the open economy to cope with changing business environment. Within the period of closed economy, Nepal had least number of industries established from the economic and technical support of China and Russia. Huge amount of capital and large number of technical manpower are required to establish the industry. Availability of market, required raw materials, manpower, transportation, power, store etc are the pre-requisite to set up the industry which are the main determinant for the industrialization.

The trend of registration number of new industries since 2006/2007 has been shown below.

Table: 2.1.4

Number of New Industries Registered 2006/07 to 2009/10

<i>Year</i>	<i>Public limited</i>	<i>Private limited</i>	<i>Partnerships</i>	<i>Proprietorship</i>	<i>Small & cottage</i>	<i>Total</i>
<i>2006/07</i>	<i>3</i>	<i>171</i>	<i>0</i>	<i>3</i>	<i>8703</i>	<i>8880</i>
<i>2007/08</i>	<i>3</i>	<i>221</i>	<i>0</i>	<i>3</i>	<i>5284</i>	<i>5511</i>
<i>2008/09</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
<i>2009/10</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>

Source: CBS, 2010

2.1.5 Classification of Industries

The Central Bureau of Statistics (CBS) has classified industries into the following seven categories:

- Manufacturing industries: Industries which produce goods by utilizing or processing raw materials, semi processed materials, by-products or waste products or any other goods.
- Energy-based industries: Industries generating energy from water resources, wind, solar, coal natural oil, gas bio-gas or any other sources.
- Agro and forest-based industries: Industries mainly based on agriculture or forest products. Such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fisher, tea gardening and processing, coffee farming and processing herb processing. Vegetable seed farming, vegetable processing, tissue culture, green house, bee keeping, rubber farming, floriculture and production and forestry related business such as agro-forestry.
- Mineral industries: Mineral excavation or processing thereof.
- Tourism industries: Tourist lodging, motel, hotel restaurant, resort, travel agency, skiing, gliding, water rafting, cable car complex pony-trekking, trekking, hot air ballooning, parasailing, golf-course, polo-horse riding, and the like.
- Service industries: Workshop, printing press consultancy service, ginning and balling business, cinematography, construction business, public transportation business, photography, hospital, nursing home, education and training institutions, laboratory, air services cold storage and the like.
- Construction industries: Road, bridge, ropeway, railway, trolley bus, tunnel, flying bridge and industrial commercial and residential complex construction and operation.

2.1.6 Major Problems of Industrialization in Nepal

The industry sector suffers structural constraints where a long list of formidable difficulties could be identified that are responsible for slow pace of industrialization in Nepal. Firstly, the open border with India in the Southern Front has been detrimental in strengthening industrial development. Although Nepal-India open border is evocative symbol of the relationship between the two economics which facilitated free movement of goods, people, capital, technology and many other intangibles such as ideas and culture this could not yield substantial structural change in the Nepalese economy. The success of industrialization in any developing landlocked economy is not only a function of a given paradigm based on conventional set of parameters of capital, technology and management but it also depends on the prospects for the growth of trade complimented by pragmatic transit facilities available. The future of foreign trade regime in Nepal depends primarily on transit. Facility offered by India which would not only shape the base of industrial development in Nepal but it will also have significant bearing on the trade regime. While considering transit problems facing Nepal it is equally important that it has a legitimate claim over navigation rights in the rivers that flow to India from Nepal.

The fundamental problem facing Nepal in the context of industrialization is that there is an acute shortage of electricity that has not only displaced foreign direct investment and private portfolio inflows but also distorted the investment climate. The industries most affected by short supply of electricity are sugar processed leather, shoes, plywood and paper. Both private and public sector industries were hard hit due to acute shortage of power in recent years. This has made industrial sector less attractive for foreign private investment in spite of having a liberal policy adopted by the government. Nepal's industry sector lacks priority as to which specific industry should come first and

in what scale. The issue of large vs. small and cottage industries, inward looking vs. outward oriented, export oriented vs. import substituting, labor intensive vs. capital intensive industries has remained undecided and yet the government claims that it has pursued market oriented, investment friendly, and transparent policies to attract foreign capital and technology in Nepal. Finally the industrial location the hills and mountains are a zone of no industry. This has caused a deliberate discrimination against the development of hill economy. (Dahal: 1994)

A team of World Bank staff and Nepalese consultants conducted interviews with 223 firms, covering all regions of country. This study summarizes the problems and constraints into several categories. The problems and constraints commonly experienced by the private sector industries are grouped into categories like: i) Government-related ii) Demand related, iii) Finance related, iv) Infrastructure, v) Labour vi) Business support and Shortage of inputs.

2.2 Empirical Literature

Due to the new topic of research there is not a thesis relating to the title. Some thesis can be found related to tax planning or in industrialization in separate topic. However, how are they interrelated with each other is not explained in these theses.

2.2.1 Tax Incentives and Industrialization (Master Thesis, 1985)

Among the available thesis in central library of Tribhuvan University, it is a thesis which matches with the topic of conducting thesis submitted by Deepak Koirala. Tax Incentives is used to describe the facilities provided by the government to investors to reduce the tax liabilities where as tax planning is the way of reducing the tax liabilities in future from the proper management of these incentives.

I) Objectives of the Study

In the broad terms, the objective of this study is to find out the cause of poor industrial performance in Nepal. The specific objectives of study are as follows:

- To study whether the tax exemption policy of government provided to small, medium or large manufacturing industrial enterprises affects positively to the industrialization in Nepal.
- To study, whether industrial policy helps to scatter the industry of the country.
- To study, whether the policy to allow one percent of the total annual sales revenue to the expenses incurred on training is helpful to produce skilled workers.

II) Scope and Methodology

There are many ways to develop the industrial sector in the country. In the developing countries tax incentives is considered as strategy and plans for industrialization. Assistance in the form of providing land and factory building or industrial area of stakes is a useful incentive measures.

Different methodologies have been followed to get the precise result from the study. Interview was taken from the industrialist to get solution of taken from the industrialist to get solution of related questions. Sample chi-square test has been used according to nature of data has been analyzed percent wise and data has been taken from primary source.

III) Findings of the above Study

Tax exemption provisions on current industrial policy of Nepal have helped to develop its industrial position. Centralization of industries is one of the problems of underdeveloped country. If there

was higher facilities provided to backward areas, it would be able to create feasible industrial environment. There are others affecting factors to make labor skilled rather than the tax credit system of the government. The tax incentives provision of current industrial policy was considered good by all of the respondents from the industrialist side. In the views of policy makers, tax exemption, provision of industrial policy is able to attract the foreign capital in the country.

2.2.2 Corporate Tax Planning in Nepal (Ph.D. Thesis, 1997)

Among the available theses in central library of Tribhuvan University, it is a related thesis related to topic prepared by Karna Beer Poudel Kshatry. The objectives scope of study and findings are as follows:

I) Objectives and importance of the above Study

Tax planning is a branch of financial planning which is to be done in advance with a view to minimizing or postponing the payment of tax within the framework of tax laws. While involved in managerial decision-making, whether at strategic planning, project planning level or operational planning level. One needs to be fully conscious of the tax implications in depth.

The objectives of the study area:

- To examine the corporate tax structure in Nepal.
- To examine the implications of tax factor in selecting the best alternative strategy in different aspects of strategic planning.
- To analyze impact of corporate tax on managerial decisions relating to the different aspects of project planning.
- To examine corporate tax planning in respect of operational planning.

- To investigate tax planning practices being followed in respect of strategic planning, project planning and operational planning by Nepalese companies.
- To offer suggestions for improvement in corporate tax laws which have direct bearing on the corporate tax planning.

II) Scope of the above Thesis

This study examines tax implications in strategic planning, project planning and operational planning by companies in Nepal. The study also outlines tax planning practices in decisions relating to these three aspects of corporate planning. Besides, tax structure, including corporate tax rate and tax incentives, have also been examined in the light of those in other countries. Other direct and indirect taxes such as property tax, sales tax, excise duty, custom duty etc. fall outside the scope of the study.

III) Finding of the above Study

- Tax base is the base which form basis for determining tax. The different tax bases are gross assets, business expenditure, value added, cash flow and book profit, each of which has its own merits and demerits.
- The corporate tax rate structure in Nepal has undergone a substantial change over the years. The government of Nepal has thus rationalised the corporate tax rate structure so much so that it is now 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. This is a step in the right direction.
- Tax incentives may mean partial or complete exemption from one or a variety of taxes and special allowance, generally for limited

period of time. Like many other developing nations, various tax incentives are provided in Nepal also under the Income Tax Act and Industrial Enterprises Act with a view of promoting saving and investment in the country in the desired directions.

- Strategic planning includes decisions relating to selection of nature of business, location of company, residential status, choice of the accounting year, change in the form of business organization, capital structure, amalgamation etc. Management is required to consider tax implications while making these decisions. Thus, besides discussing the tax implications relating to these decisions under the framework of the existing Income Tax Act and Industrial Enterprises Act, the tax planning practices both in public and private sector companies have also been outlined. Most of the Nepalese companies considered the tax factor while deciding their location. Regarding change in the form of business organization, it has been found that the conversion of a private limited company into public limited company results in more tax advantages including among others deduction of remuneration, interest, commission, rent or bonus paid to shareholders or any member of a public limited company. Capital structure is another important strategic decision that requires, among others, tax consideration. Higher the tax rate, the greater the tax benefits associated with debt. This study has revealed that 76% of the executives preferred increase in debt in the capital structure with an increase in the tax rate.
- Project planning consist of decisions relating to expansion, diversification of business, make or buy, acquisition of taxed assets, modernization, replacement, repairs and renewals, rehabilitation of sick units etc. This study shows that the Nepalese companies had taken tax advantages associated with expansion

and diversification. Benefits from make or buy decisions are mainly in the form of reimbursement by government of sales tax customs duty, premium etc. to manufacturing units. Out of sample of the study 80% of the companies had considered tax factor in make or buy decision while remaining 20% did not do so. As regards acquisition of fixed assets, these may be acquired in different ways. For instance, fixed assets can be acquired either by leasing or owning. As regards planning practices relating to acquisition of fixed assets, over 83% of the companies considered tax implication at the time of acquisitions of fixed assets where as 17% did not consider the tax factor in such a decision. Companies also face the problem of disposal of fixed assets. Capital loss or gain arising out of disposal of such assets is deducted or added, as the case may be, in the business profits. It may be noted that in Nepal there is no separate provision relating to taxation of capital gains.

- Operational planning is related with planning of the routine operations. These routine business operations are concerned with short run business objectives and policies. Depreciation is one of the most important aspects of operational planning which has direct bearing on the taxable income of the company. This study shows that 93% companies had the practice of considering tax factor in respect of depreciation, while there was no response of 7% of total sampled company. Marketing decisions are concerned, tax factor is considered mainly in respect of experts and advertisement expenses. As regards tax practices, 80% of the companies considered tax factor in their marketing decisions, while 20% companies did not do so. Tax consideration is also required in respect of personnel remuneration including salaries, allowances and perquisites which benefit both to the employer and employees. As regards tax planning practices all the sample

(100%) companies had reported that they used to consider tax factor at the time of planning in respect of personnel remuneration.

2.2.3 Tax Policy its Problems and prospects Upon Industries in Nepal (Master Thesis, 2004)

This is another thesis available in central library related to my topic prepared by Mangi Pradhan. Tax policies refer to the plan of action to achieve the objectives for which the tax is levied. Industrialization is an important factor for achieving the basic objectives of countries economic and social development. More or less there is similarities in the objectives of these two thesis. The main objective of his research is the impact of tax policies to the industrialization where as my objective is how tax planning promotes the pace of industrialization. The objectives, scope and methodology, findings of his research report are as follows:

I) Importance and Objectives of the literature

- To evaluate the effectiveness of present taxation policies of Nepal.
- To identify the problems faced by industrial sector.
- To evaluate the current performance of individual sectors.
- To suggest remedies for successful implementation of various taxation policies of Nepal.

II) Scope and Methodology

High rate of tax is not the best solution to increase the revenue of government. If the government motivates to the investors by developing the infrastructure and impose the low tax rate, it may promote the economic development, sustainable development and balance development. Descriptive and analytical methods were used on the basis of both primary and secondary data. Among the 514 manufacturing

company, 30 industries have been selected as sample. Sample was selected in such a way that it represented a group of industry. Questionnaires were extensively used for this purpose.

III) Findings of the above Thesis

The tax policy taken by the government is better which ensures effective resources mobilization and also provide incentives for promoting private investment. The provision in Industrial Enterprise Act is quite good but the implementation part is very poor. The main weakness in the formulation of tax policy is its formulation without considering other policies such as Industrial Policy, Commercial policy, Investment Policy, Privatization Policy etc. These policies have to be considered while formulating Tax Policy which is not done in the context of Nepal. There is lack of mutual trust between taxpayers and tax officials which has created difficulties for taxpayers in fulfilling their tax obligations. Income Tax Act stresses to promote the self-assessment system which is not implemented well mainly due to lack of adequate preparation. A large part of total tax revenue is generated by industrial section. Despite the various efforts put in by the government to develop a conducive industrial environment, industrial sector is still in underdeveloped state.

2.2.4 Tax Planning in Nepal (Master Thesis, 2005)

It is another related thesis available in central library submitted by Bidur Karki. This research work tries to show the ways of minimizing the tax liabilities without violating the tax laws and spirit of tax related laws. The objective of study, methodology and findings of the study are as follows:

I) Importance and Objectives of the above Study

Tax incentives provided by the government in various related act and rules are the elements of tax planning. It is the future oriented

activity which prepares of advance to reduce the present and future tax liabilities. The main focus of study goes to the application and abstracts of tax planning removing of tax evasion, fraud and negligence, the revenue of the country can be mobilized thoroughly and successfully. The objectives of study are:

- To analyze the existing problem of income Tax Act 2058.
- To study the concept and applicability of tax planning in Nepal.
- To study the gap between theory and practice of tax planning in Nepal.
- To analyze the tax planning practices followed by Nepalese companies.

II) Scope and Methodology of the above Study

Some of tax payers have not ideas of reducing the tax liabilities without violating the laws. This study attempts to solve the problem face by tax payers. Tax planning is important to study of tax planning theory and its corresponding practices in Nepal. Tax incentive is becoming an integral part of tax planning for accelerating the pace of industrialization in most of developing countries. To achieve the objectives of the study, research design, sources of data, population and sample, data collection process and data analysis are used by researcher.

III) Findings of the above literature

All the respondents said that they are always on the favor of tax laws. Most of respondents said that the government has provided various facilities to them on the law but has not been able to implement that system of the law in practical life. This research shows tax evasion and tax avoidance are made by the tax payer on the support of tax administrator. In addition, income tax is administered directly by Inland Revenue Department which is responsible for the implementation and administration of the act. Because of the negligence and support on tax

evasion behavior, there is vast gap between theory and applied field of tax laws and rules. The act has provided tax planning facilities to avoid illegal and unethical behavior of tax payer but they feel difficulties to analyze the criteria of the tax planning. Every section of Tax Acts has been described by the presiding section and sub-section. Such type of confusion in tax law makes puzzle to the tax payers.

Regarding the tax planning, out of 50 companies as many as private companies considered tax factors while deciding the location where as no response was received from government companies. As regarding tax planning, all sample companies consider the strategic planning, project planning and operational planning. This study proves that some tax payers expense even for the purpose of reducing tax liabilities. Due to lack of qualified manpower for tax planning and high cost of it than saving, they do not consider the tax planning comprehensively. Because of poor tax administration, tax payers show the slightly more or less tax liability than the past years in their self-assessment report. There is vast gap between theory and practice of tax planning in Nepal because of poor administration and instability in rules and regulation.

2.3 Tax Planning and Industrialization

Tax planning is advance procedure to minimize the tax liability by adjusting the given incentives and facilities in chronologically. It is a determinant factor for the industrialization to the country. It is the age of privatization. Liberalization and Globalization so that the investors invest in those countries which have sufficient raw materials, higher level income of people, favorable government policies, competitive position, stability of government and consumption behavior etc. So many components are equally responsible for the investment in industries on which tax incentives provided in the related Act and laws also a component. At the time of feasibility study of project for

establishing the industry, strategic tax policy of government put into consider. For the industrial development in Nepal, the government should give maximum incentives and facilities to the domestic as well as foreign investors because the other components such as: size of market, skilled manpower, supply of power, availability of raw material, purchasing power of customers etc. below than the competitive market situation of the world. When the excess cost of production and supply below than the excess tax saving with compare to other countries and then the foreign investment excessively increase and the pace of industrialization become higher but not only the tax incentives sufficient for the industrialization. It is possible to industrialize those sectors which products have highly demand in local market, availability of raw materials, least cost of transportation labor-intensive products etc.

Due to the lack of research of tax planning and industrial growth in Nepal, this research work is being done to fill up the gap for industrialization. More or less objectives are similar with previous research work but not absolutely. It may unique topic for research and also add new topic for research for future.

Chapter – III

Research Methodology

Research is the innovative activity by which the researcher find out the new knowledge and idea in particular topic with compare to existing findings. Research methodology is very essential to the researchers for the proper evaluation of research problem and to achieve the conclusion. Each researchers have their own objectives for conducting the research. The blue print by which the objectives of the researchers achieve through the collecting the data, processing and analyzing to reach the findings is called research methodology. Therefore research methodology is used for the achievement of the objective of the study.

This study is conducted to contribute in condition of tax planning and industrial growth in Nepal, therefore, research methodology is designed and implemented to study about the sources causes methods, problems and solution of tax planning and industrialization. For the achievement of the objectives, the research design, population and sample, nature and sources of data, data collection procedure, procedures of data presentation and analysis.

3.1 Research Design

After setting the research objectives and deal with in order to obtain the required information, research design describes the general plan for collecting, analyzing and evaluating the data. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design only can provide the answers to the proposed research questions.

Most of data and information of the study are based on opinion, experience, performance, exception and problems faced by the respondents. Therefore, the research design of this study is analytical as

well as descriptive. This study attempts to analyze problems in application of tax planning and industrialization to our country and deficiencies in Tax Act and Industrial Enterprise Act to promote the pace of Industrialization. Descriptive and qualitative research design are used to achieve the result of pre-determined objectives. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual or of a group. What are the problems faced by the tax payers for preparation of tax plan explained through this method. Qualitative research is an approach involves the exploration and interpretation of the perceptions, opinions and behavior of small samples of individuals. To analyze the relationship of Tax plan and industrialization, to examine whether the investors agree or disagree about the provision of facilities provided to them through this method.

3.2 Population and Sample

Considering the total population for the research work becomes inconvenient due to the long time required for data collection, highly expenditure, communication gap, variation in norms and value etc. so that it should be completed to achieve the suitable result in particular situation. For this study, sampling is used to acquire the final result. For this research work, kathmandu valley is taken as cluster sampling of whole Nepal. After then, Balaju industrial state, Durbar Marg Area, and Patan industrial state are three areas as sampling. According to size of industry, categories of industries and desirability of respondents, 34 industries have been selected as sample for the research work. Questionnaire were distributed most of the industries but only 34 industries filled up and answered the questionnaire and interview questions respectively. The following table shows the nature of companies and sample size.

Table 3.2

List of Nature of Company and Sample Size

S.N.	Nature of Company	Sample size
1.	Banking and servicing	10
2.	Construction	7
3.	Trading	7
4.	Manufacturing	10
Total		34

3.3 Nature and Sources of Data

This research study mainly base on primary data. For collecting the primary data, a set of questionnaire have been prepared and distributed to the area of cluster sampling. Interview have been taken to the investors directly visit to the door of company. Some questionnaires are filled up through the mediator. Due to confused in questionnaire and unstructured interview activity, the respondents may give the undesired answer but it does not amend while preparing the report. Due to the lack of related secondary data for this research work, it is highly based on primary method of data collection. Secondary data are nominally used such as: provisions in Tax Act and Industrial Enterprise Act matched with topic. Some of secondary data published by **Department of Industry** and **Central Bureau of Statistics** are used while preparing the report.

The sources of data used in this research are as follows:

A) Primary sources of data:

Primary sources of data have been collected within the Kathmandu valley from those respondents who are representing themselves as live outputs, payers and administrator of different sectors. To know the opinion of the respondents, a structured questionnaire was distributed. The entire questionnaire had covered the main theme of this

research and necessary suggestions for achieving effectiveness of Income Tax in Nepal.

B) Secondary sources of data;

The secondary sources of data were the information received from books, dissertations, journals, reports and articles concerned with the study. The major sources of secondary data were as follows:

- i) Economic Survey of various years, Ministry of Finance, Government of Nepal.
- ii) Reports and records of Inland Revenue Department.
- iii) Books related to Income Tax.
- iv) Thesis and dissertations submitted at Central Library, T.U.
- v) Research studies by Centre for Economic Department and Administration concerning the Income Tax.

3.4 Data Collection Procedures

A set of questionnaire based on pre-setting objectives of the study have been prepared, distributed to the selected areas. 80 set of questionnaire were distributed in the area of cluster sampling. Most of respondents filled up the questionnaires after discussing about each questions. Some of them were filled without explain and few were filled up through mediator. Out of 80 set of distributed questionnaire only 34 set were returned with filled up. Some set of questionnaire were returned without answer. Unstructured interview have been taken of Managing Director Financial manger, Accounting Officer, Auditor and other interested and knowledgeable persons related to selected industries. Interview was also taken of those who have or have not idea of fill up the questionnaire. The interviewee who did not fill up the questionnaire have threatened to reply the tax related problem. They have suspicious upto the present situation to talk about the tax and tax related Act to those persons who have not intimacy.

3.5 Procedures of Data Presentation and Analysis

The research work based on primary data and qualitative research design is used so that it is difficult to use the testing of hypothesis, correlation and regression equations for the presentation and analysis of data. Simple statistical tools are used such as: tabular presentation of data, diagrammatic and graphic presentation of data, circular diagram, measure of central tendency etc. The collected information is tabulated and the voice of majority and minority analyze in systematic manner. To achieve the conclusion of the study majority respondents acceptance is taken into consider. The contradictory data is not considered for conclusion. To fulfill the objectives of the study, unstructured interview is also used in analytical form.

Chapter - IV

Presentation and Analysis of Data

It is the main part of research work because all others parts of research report are moving around the analysis of collected data. Only the collection of information without classification, analysis, organization does not give conclusion so, the research work becomes meaningless. The systematic arrangement of collected data which gives the clear idea and knowledge to the readers can be taken as valid research work. The collected data without presentation and analysis becomes valueless as sand in the bank of river and water of ocean so that this chapter contributes to give grate value of each research work. The pre-setting objectives are fulfilled through this chapter. After the presentation and analysis of data, there is possible to summarize conclusion and findings of the research. The research topic “Tax Planning and Industrial Growth in Nepal” covers the large area of research. Due to the time constraints, expenditure, requirements of study etc. cluster and then convenience sampling have been used. The collected data from 34 companies and opinion of interviewees are main source of data and then generalized the findings to the whole country.

4.1 Information about Company and Respondents

Large number of industries, of various categories in small area, locate in Kathmandu. To reach near the result of population and base on convenience of researcher, sample have been taken to Balaju Industrial state, Durbar Marga area and Patan Industrial State. Due to the suspicious concept of respondents, poor persuading capacity of researcher, policy of business etc. made unable to collect the total distributed questionnaire through these areas. Only 34 set at questionnaire have been returned out of 80 set distributed which includes 10 Banking and servicing, 7 construction, 7 trading and 10 manufacturing companies. Most of the respondents are Managing

Director, some are Assistants, Accounts, Auditors etc. The respondents have the experience within the range of 2-22 year. The academic qualification and nature of work of respondents has been shown in table below.

Table 4.1

Nature of Work and Academic Qualification of Respondents

<i>Nature of work</i>	<i>No. of Respondents</i>	<i>Academic Qualification</i>	<i>No. of Respondents</i>
<i>Accountant</i>	<i>15</i>	<i>Certificate</i>	<i>3</i>
<i>Managing Director</i>	<i>15</i>	<i>Bachelor</i>	<i>8</i>
<i>Marketing Manager</i>	<i>4</i>	<i>Master Degree</i>	<i>21</i>
<i>Others</i>	<i>-</i>	<i>CA</i>	<i>2</i>
<i>Total</i>	<i>34</i>	<i>Total</i>	<i>34</i>

The above table has been shown in the bar diagram.

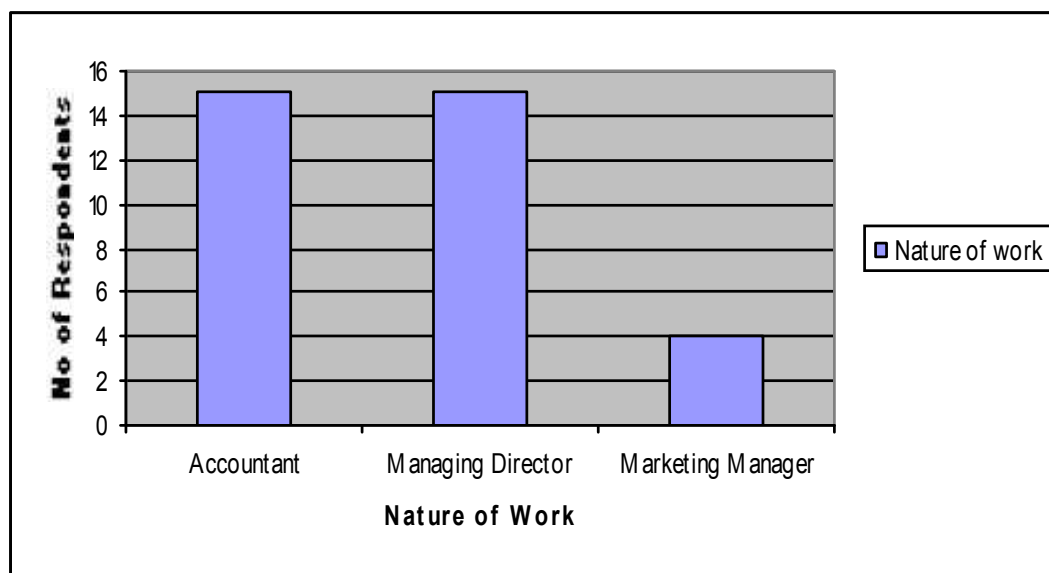


Figure 4.1 (i) : No of Respondents and Their Nature of Work

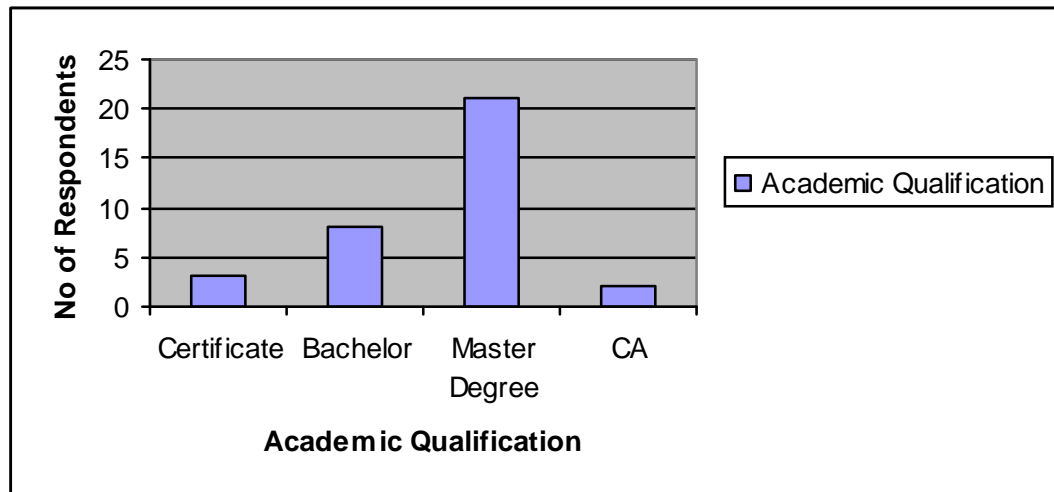


Figure 4.1 (ii) : *No. of Respondents their Nature of Work and Academic Qualification*

From the nature of work of respondents, their experience in related field and their academic qualification, it can be said that these respondents are being led the whole respondents of the related business categories of our country by their experience and qualification.

4.2 Use of Tax Planning

Tax planning helps to reduce the tax liability without violating the rules and regulations of the Act. It is a valid concept so, many organizations use tax planning in their firm. To find the answer whether the sample companies use tax planning concept in their organization or not, a question has asked '*Do you use tax planning in your organization*'. The answer given by the respondents have been presented in table: 4.2(i).

Table 4.2(i)***Opinion of Respondents about the Preparation of Tax Plan***

<i>Nature of Business</i>	<i>Respondents Prepare Tax Plan</i>		<i>Respondents Ignore Tax Plan</i>		<i>Total</i>
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	
<i>Banking Servicing</i>	8	80	2	20	10
<i>Construction</i>	5	71	2	29	7
<i>Trading</i>	5	71	2	29	7
<i>Manufacturing</i>	6	60	4	40	10
<i>Total</i>	24		10		34
<i>Percentage</i>		71		29	100

Form the above table, it is observed that 71 percent of sample companies use tax planning in their respective companies. It shows that large numbers of investors are familiar about the concept of tax planning and reduce the tax liability without ignoring the spirit of law. Among them, banking and servicing companies are more conscious than other type of organizations. This research study, 80 percent of banking and servicing industries, 71 percent of construction and trading and 60 percent of manufacturing follow the tax plan. Similarly, 29 percent of respondents do not practice. Thus it is concluded that most of sample companies use tax planning in their organization to reduce tax liabilities.

In a query, *why do not they apply the tax planning in their organization?* The reasons provided by them have been presented the following table 4.2(ii).

Table 4.2(ii)

Difficulties in Use of Tax Planning

<i>Options</i>	<i>Banking and Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>
<i>Lack of expertise to make proper tax plan</i>	-	-	-	1	1
<i>Cost of tax planning is higher than the tax saving</i>	-	-	1	-	1
<i>Confused in related acts and rules</i>	-	1	-	1	2
<i>All of above</i>	2	1	-	2	5
<i>Total</i>	2	2	1	4	9

Most of company owner prepare the tax plan to reduce the tax liabilities but how much level do they use can't be said absolutely. 29% of companies do not use the tax planning. In a personal interview, they said that they have interest to reduce the tax liability through proper tax planning. The reasons given by them for ignoring the tax planning were:

- Lack of expertise to make proper tax planning,
- Cost of tax planning is higher than the tax saving,
- Confusion in related acts and rules, etc.

Some of the respondents face only one problem and others have faced more than one to prepare tax planning. Most of respondents have suggested that firstly the government has to motivate and encourage to use the tax planning. Secondly, the government should provide rebates

and concession. They also said that the law makers do not explain the provisions to make them confirm in law which promotes the tax evasion, avoidance and tax delinquency rather than the tax planning. Tax administrators also discourage to prepare the tax planning by delaying in work procedure, lengthy work process and by supplying the way of tax evasion and avoidance.

The level of tax planning based on facilities provided in the act to reduce the tax liabilities. The proper management of strategic planning, project planning and operational planning to reduce the aggregate tax liabilities to each year upto the life of business is tax planning. The level of tax planning applied in sampled companies are as follows:

Table 4.2(iii)

Level of Application of Tax Planning

<i>Nature of Business</i>	<i>Non at all</i>	<i>Very little</i>	<i>Moderate</i>	<i>As much as Possible</i>	<i>Total</i>
<i>Banking & Servicing</i>	-	2	5	3	10
<i>Construction</i>	1	1	3	2	7
<i>Trading</i>	-	1	5	1	7
<i>Manufacturing</i>	2	1	3	4	10
<i>Total</i>	3	5	16	10	34
<i>Percentage</i>	9	15	47	29	100

The above table has been shown into bar diagram

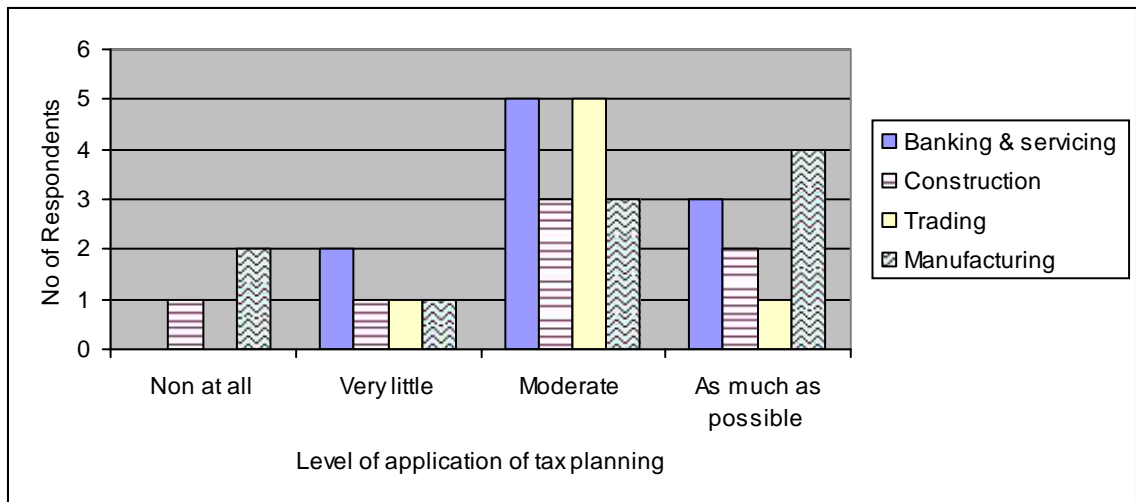


Figure 4.2: *No of Company and Level of Application of Tax Planning*

It is observed that, 47 percent of sample companies apply tax planning moderately followed by 15 percent very little and 9 percent do not apply tax planning scheme in absolute term but they have tried to use it in their own way. They do not want to take help of tax experts to minimize tax liabilities. 29 percent of the sample industries take advise of tax experts or appoint them to reduce the tax liabilities legally. The banking and servicing companies which have been taken as sample, apply the tax planning as much as possible. The firm which have higher productive capacity and have large market apply the tax planning as much as possible, but the smaller industries of various sector either apply the tax planning very little or non at all. The reason for non application of tax planning may be attributed to rising up the cost as more as tax saving.

Based on above, 71 percent of industries prepare the tax planning to reduce the tax liabilities. They either hire or appoint the tax experts for this purpose. Remaining 29 percent of industries have not prepare the tax planning in their company. Lack of

expertise for making proper tax planning with minimal cost, poor knowledge about the tax act and rules, these firms have not made any planning.

4.3 Required Condition to Prepare the Tax Planning

The main objective of tax planning is reducing the tax liabilities without violating and breaking the laws and spirit of law. Exemption, rebates, deductions, concessions provided in act and laws are the pre-determined condition for tax planning. More the facilities provided in tax act and laws more the motivation to make the tax planning. To know the attitude of respondents, to findout the conditions required to employ the tax planning, a question has been asked '*In which condition would you be able to use tax planning?*' The response provide by the respondents have been tabulated as follows:

Table 4.3

Condition Required to Prepare the Tax Planning

<i>Options</i>	<i>Categories of Business</i>					<i>%</i>
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	
<i>Clarity in related acts and rules</i>	3	2	3	5	13	38
<i>More incentives other than the existing provision</i>	1	-	-	-	1	3
<i>Sufficient of tax experts to adjust the provided incentives</i>	3	-	-	1	4	12
<i>When the firm extends its capacity</i>	1	1	1	1	4	12
<i>Non of above</i>	-	-	-	-	-	0
<i>All of above</i>	2	4	3	3	12	35
<i>Total</i>	10	7	7	10	34	100

The above table has also been shown in pie chart.

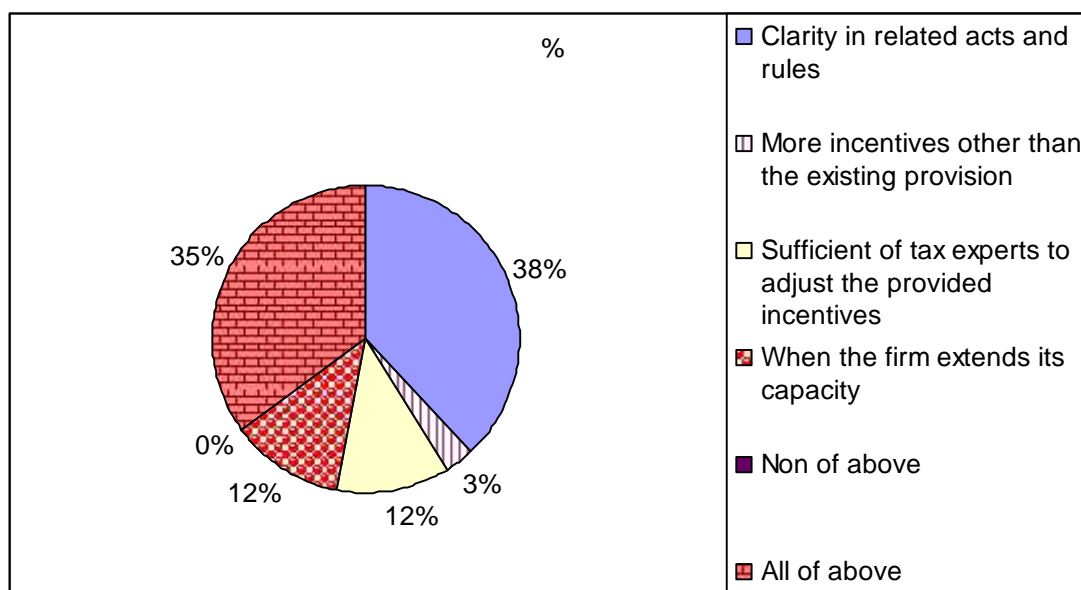


Figure 4.3 : *Problems in Application of Tax Planning*

It is suggested that, out of 34 respondents, 38 percent have suggested that there should be clarity in related act and rules and suggestions followed by use of sufficient tax experts 12 percent, when the firm extends its capacity 12 percent, more incentives other than the existing provision 3 percent and 35 percent of respondents have been selected all the given options as their problem for tax planning.

4.4 Relationship between Tax Planning and Industrialization

Industrialization is that condition where most of citizens engage in the industrial sector their occupations. Industrialization provides multiple opportunities of job for the people. The pace of industrialization becomes higher when the investors estimate the higher profit rather than the cost and risk of investment. Tax is the charge which is paid to the government without authority of claim any direct benefit in return of payment of tax. If the government minimize the tax rate, the total amount of minimized tax contribute as net profit to the investors so they are motivated to invest which accelerate for the industrialization.

Is there association between tax planning and industrialization? has been asked to the respondents. The answer of respondents present in the tabular form.

Table 4.4
Association of Tax Planning and Industrialization

<i>Option</i>	<i>Categories of Business</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Yes</i>	<i>10</i>	<i>7</i>	<i>7</i>	<i>10</i>	<i>34</i>	<i>100</i>
<i>No</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-</i>
<i>Total</i>	<i>10</i>	<i>7</i>	<i>7</i>	<i>10</i>	<i>34</i>	<i>100</i>

It is observed that total numbers of respondents have the uniformity in their answer as there is association between tax planning and industrialization. For the reasons of relationship, questions were asked to the interviewee and most of respondents said that tax planning helps to minimize the tax liabilities of business owner. Minimize the tax liabilities in constant sales indicate the rise up the profit so that no one investors become sad when his profit become higher which motivate to re-invest hence there is relationship between tax planning and industrialization directly.

4.4.1 Tax Planning Promote the Pace of Industrialization

The main factor for industrialization is the higher portion of total domestic income and foreign aid invest and reinvest in industrial sector to utilize the available resources for national economic growth. Economic growth improves the infrastructure and social indicator such as: education poverty, literacy, death rate, per capita income, drinking water, facility of transportation, irrigation, communication, electrification etc. Through these facilities, the suitable environment

creates for industrialization. Hence industrialization is the factor which improves all economic condition, infrastructure and social indicators. Tax planning is also a motivator factor for industrialization. ‘*How does tax planning promote the pace of industrialization*’ has been asked to the respondents. The opinion of respondents among the given alternatives collected through questionnaire has been presented in the tabular form as follows:

Table 4.4.1
Tax Planning Promote the Pace of Industrialization

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>a. By reducing tax liabilities</i>	3	3	2	5	13	38
<i>b. By providing equal benefit to investors and government</i>	2	-	3	1	6	18
<i>c. By providing the format of proposed industry</i>	1	1	-	-	2	6
<i>d. It promotes to become the state of legislation</i>	-	-	-	-	-	0
<i>e. All of above</i>	4	3	2	4	13	38
<i>Total</i>	10	7	7	10	34	100

Tax planning is a determinant for the industrialization. Others factors such as: availability of manpower and raw material, size of market, competitive position, development of infrastructure, political stability, facilities provided by the government, cultural norms and value etc. also play the importance role for industrialization. Among the given alternatives, 13 respondents of selected industries emphasized that

tax planning promote the pace of industrialization by *reducing the tax liabilities of investors* which represent the 38 percent of total sample size. Out of 34, 6 respondents selected that it is possible *by providing equal benefit to investors and government* which represents the 18 percent of total respondents. Only 2 respondents selected the option which stress pace of industrializations becomes higher due to tax planning because it provides the framework of proposed industry. Here framework refers to the size of business, selection of location, nature of business, social impact, impact to environment etc. to establish the industry. No one respondent select the option that *it promotes to become the state of legislation* separately.

The last alternative ‘All of above’ was selected 13 respondents which represent 38 percent of total respondents. They have the opinion that not only component of tax planning play the vital rote to promote the pace of industrialization but also the given options as well as others also determines its pace. Hence, it is better to select the multiple option rather than the particular ones.

The data presented in table 4.4.1 has been shown in the multiple bar diagram as follows:

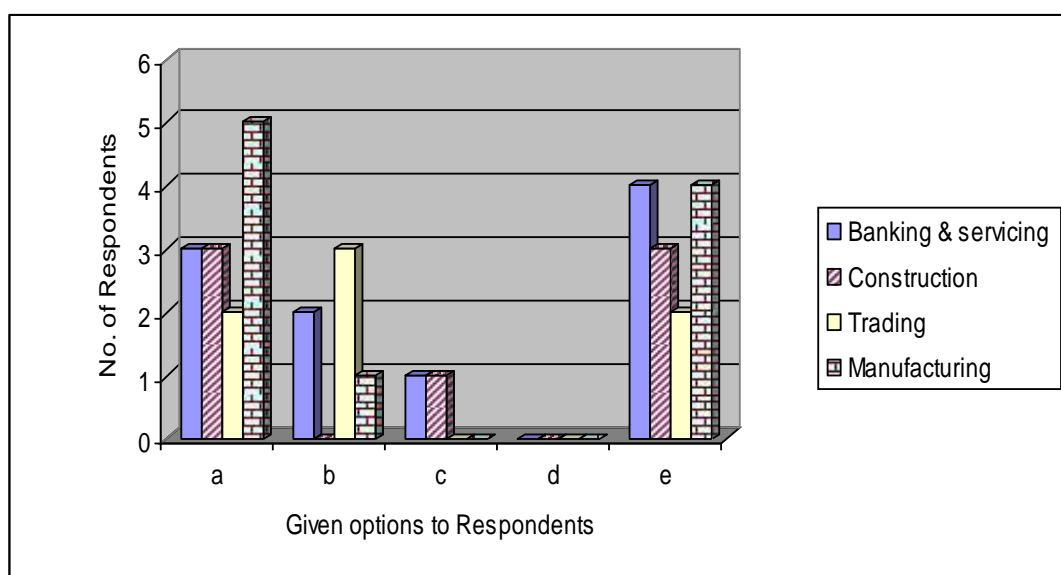


Figure 4.4.1: No of Respondents and Their Selection of Given Options

4.4.2 Tax Incentives and Industrialization

Tax incentives are included in tax related act and rules by which the investors directly or indirectly acquire the benefit if they are able to manage them based on enacted laws and rules. The investors are also the member of country so that they have authority to analyze, criticize and recommend for the amendment of act and rules for industrial development and for equally distribution of national benefit to all member of country.

For finding the facts and reality, a question ‘*what short of association has the tax incentives with industrialization?*’ has been asked to the respondents. The opinion of respondents among the given alternative are presented in tabular form as follows:

Table 4.4.2(i)

Association between Tax Incentives and Industrialization

<i>Alternative Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Direct</i>	9	7	6	9	31	91
<i>Indirect</i>	0	0	0	0	0	-
<i>Inverse</i>	0	0	1	0	1	3
<i>No Association</i>	0	0	0	0	-	0
<i>Not Answered</i>	1	0	0	1	2	6
<i>Total</i>	10	7	7	10	34	100

The above table also has been shown in bar diagram as follows.

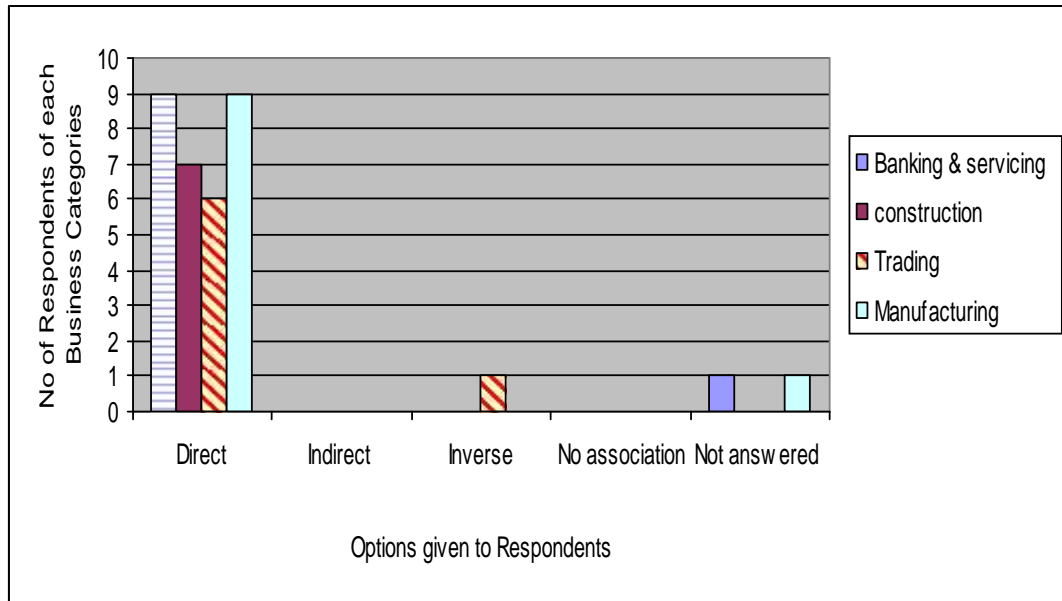


Figure 4.4.2 : *Bar Diagram of Respondents opinion of selected business categories*

From the above table it is observed that most of respondents have opinion that there is direct relationship between tax incentives and industrialization. When the tax incentives provided in tax act and rules, the investors are motivated for investment of their capital. Based on Herzberg's Motivation-Hygiene theory, *average tax incentives with compare to other neighbouring countries is a hygiene factor for the investors because if it is not provided, there is dissatisfaction to the investors but if it is provided to them there is no dissatisfaction. On the other hand, the tax incentives higher than the neighbouring countries contributes to promote the profit which brings the satisfaction to the investors is called motivational factor. If it is not provided, there is no satisfaction to the investors but they have not dissatisfaction.*

91% of total respondents have standed on the direct relation between tax incentives and industrialization. 3 percent of respondents have opinion that there is inverse relationship between tax incentives and industrialization and 6 percent of respondents have not answered.

For the evaluation of concept of respondents about the tax planning, a definition *proper arrangement of tax incentives provided in the act and rules to reduce the tax liabilities if called tax planning* has been given with three alternatives: Yes, No, To some extent for selection. The opinion of respondents within the given condition has presented in tabular form as follows:

Table 4.4.2(ii)

Opinion of Respondents about Definition of Tax Planning

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Yes</i>	5	4	3	8	20	59
<i>No</i>	1	0	1	1	3	9
<i>To some extent</i>	4	3	3	1	11	32
<i>Total</i>	10	7	7	10	34	100

Majority of respondents about the given definition, 20 respondents have selected the ‘yes’ option out of 34 which represent the 59 percent of total respondents. 3 respondents refused to the given definition which represent 9 percent of total respondents and 11 respondents have selected the option ‘to some extent’ which represent the 32 percent of total respondents. Through the opinion of selected respondents, it can be said that the given definition of tax planning become incomplete. It does not lead to the opinion of all respondents through which it can be concluded that there is missing of some relative terms to give the detail definition of tax planning.

4.5 Tax Planning and Establishment of New Business

The tax liability of investors varies based on time dimension when they prepare tax plan. If they prepare the tax plan before establishment of business they can adjust the incentives provided to the location, size of company, nature of business etc. which reduces the tax

liability and promote the profit after tax. To expose the intention of businessmen a question 'If you intend to establish a new business, when do you prepare the tax plan?' has asked to the respondents by giving the certain alternatives. They have been requested to give other alternatives if any do they feel. The opinion of respondents about the given question have been tabulated as follow:

Table 4.5

Preparation of Tax Plan for Different Time Dimension

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>a. Along with preparation of business plan</i>	5	2	2	4	13	38
<i>b. After the completion of business plan</i>	2	2	2	1	7	21
<i>c. Just before the run of business</i>	1	1	1	1	4	12
<i>d. Yearly basis when the business operates</i>	2	2	2	4	10	29
<i>Total</i>	10	7	7	10	34	100

The above tabulated data has been shown in multiple bar diagram.

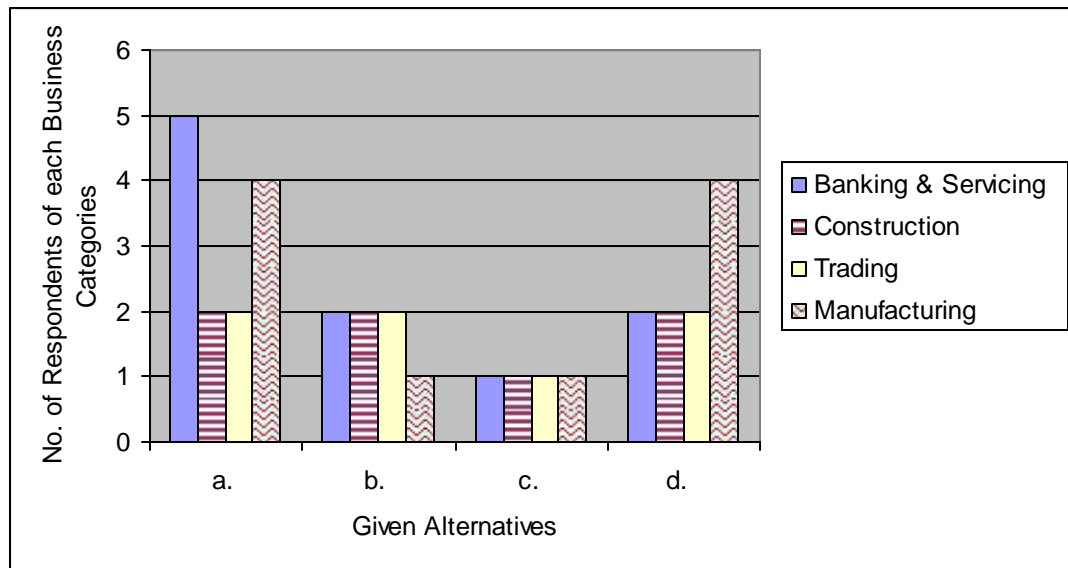


Figure 4.5: *No of respondents and their opinion for preparation of business plan*

From the table 4.5 and diagram 4.5, it is observed that all the new investors prepare the tax plan knowingly or unknowingly. The respondents who have knowledge about the existing laws and rules, they may have prepared the tax plan along with business plan and who have least knowledge will not prepare at beginning but prepare in yearly basis.

Out of 34 respondents, 13 respondents have selected the option that if they are going to establish new business, tax plan will have prepared along with business plan. It represents the 38 percent of total sample size.

7 respondents have selected the option that if they intend to establish new business they prepare the tax plan after the completion of business plan 21 percent of total respondents prefer this option as the best among the given alternative. 4 respondents have selected that they will have prepared the tax plan just before run of business. 1/1 respondents of each categories prefer this option among the given alternatives. It represents 12 percent of total sample size. 10 respondents have selected that they will have prepared the tax plan yearly basis

when the business operates which represents the 29 percent of total respondents. Tax planning is the part of complete business plan. Planning is done to secure about the future profit with minimum risk. If the tax plan prepare along with the business plan the total incentives provided to investor by government can be adjusted if there is delay in planning investors have to sacrifice the certain part of profit to pay additional tax.

4.6 Main Barriers for the Industrialization to Nepal

Industrialization is the symbol of all round development of country. For industrialization, qualified manpower, natural resources, modern technology, huge amount of capital, civilized society, security, state of legislation, liberal government policy, democratic and transparent government, positive correlation with neighbouring countries etc are required components. Nepal has least number of industries establish by investment of small capital so they have poor productivity with compare to industries of developed countries. Both market-led economy and state-led economy are poor. Due to poor economy, there is not highly chance of reinvest of huge capital to industries. Without industrialization to the country, the stagnant manpower can't contribute to the economy and per-capita income always lies below the poverty line. The main problem is how do bring into motion to the available resource for economic development. To analyze the barriers of industrialization, a question "*what is the main barrier for the industrialization in Nepal?*" have been asked to the respondents. The opinion of respondents within the certain options have been presented into tabular form as follows:

Table 4.6

Problems for Industrialization to Nepal

<i>Given alternative</i>	<i>Banking & Servicing</i>		<i>Construction</i>		<i>Trading</i>		<i>Manufacturing</i>		<i>Total</i>
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	
<i>a. Shortage of raw material and trained manpower</i>	1	10	2	29	-	0	3	30	6
<i>b. High tax rate and less tax incentives</i>	-	0	-	0	2	29	-	0	2
<i>c. Limited market and high transportation cost</i>	2	20	1	14	-	0	2	20	5
<i>d. Poor infrastructure</i>	3	30	-	0	1	14	1	10	5
<i>e. All of above</i>	4	40	4	57	4	57	4	40	16
<i>Total</i>	10	100	7	100	7	100	10	100	34

The above table has been shown in percentage bar diagram for more clarification as follows:

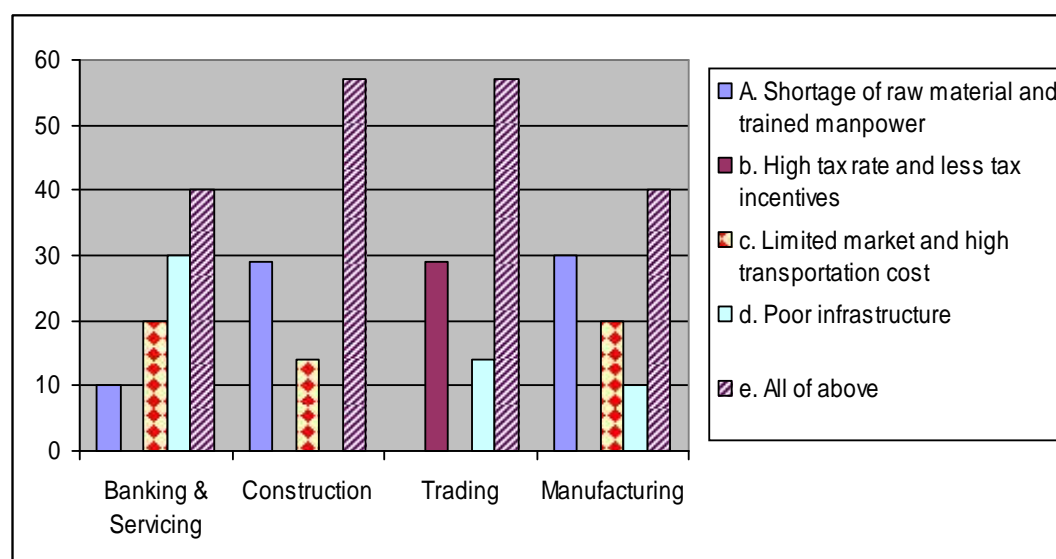


Figure 4.6: Percent of Respondents of Selected Business Categories

No one activity exists without problems but what types and how many barriers exist depends upon the success and failure. Nepal is facing the major barriers for industrialization. Some of problems have been given for the selection. *Shortage of raw material and trained manpower* is a problem. Out of 34, 6 respondents refer this problem as major. The second option *high tax rate and low tax incentives* prefer by 2 respondents. Third option *limited market and high transportation cost* prefer by 5 respondents. Forth option *poor infrastructure* prefer by 5 respondents as only major problem. Remaining 16 respondents prefer that *all the above* options are equally affected for the industrialization. If it was given for ranking it may easier to take correct decision.

From the above opinion of respondents it can be concluded that not only barrier affects but also multiple factors are equally responsible as barriers for industrialization.

4.7 Opinion of Respondents on the Facilities Provided in Income Tax Act, 2058

Through the interaction with the respondents and others responsible persons of industries, it can be said that large no of business owners have not knowledge about the tax act and rules. They fully depend upon auditor of company for each tax related activities. A question '*Are the tax exemptions, rebates, deductions and concessions extended to the organizations under the existing tax law adequate?*' have been set in questionnaire. The opinion of respondents have been presented in table as follows:

Table 4.7(i)

Opinion of Respondents about Business Rebates Exemptions and Facilities

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Yes</i>	3	-	1	4	8	24
<i>No</i>	2	3	2	5	12	35
<i>I don't know</i>	5	4	4	1	14	41
<i>Total</i>	10	7	7	10	34	100

From the above table it has been developed the pie chart to show the percentage of respondents select.

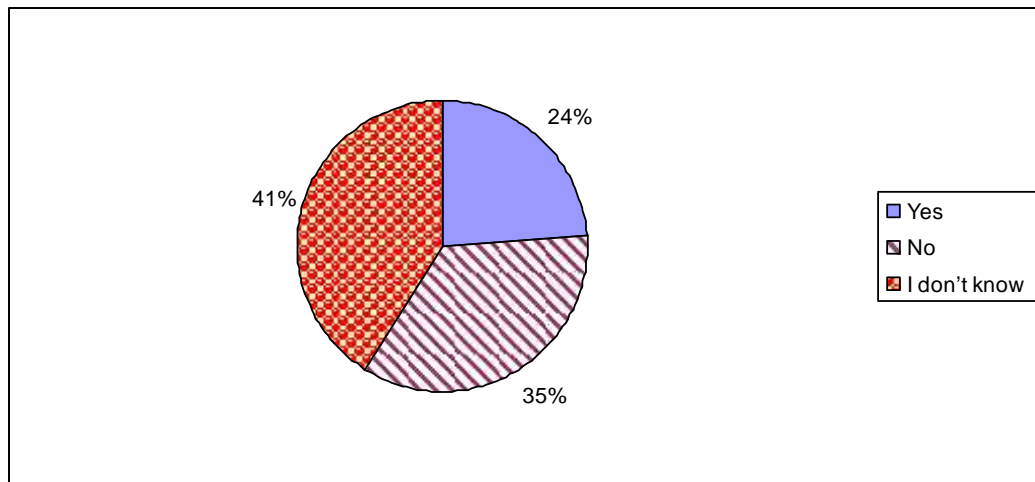


Figure 4.7: *Percentage of Respondents Opinion within given Alternatives*

From the table 4.7(i) and figure 4.7, 41 percent of total respondents have not knowledge about business rebates, exemption and facilities large portion of respondents of trading and constructions and large number of respondents of banking and servicing have been selected the option *I don't know*. 24 percent of total respondents expressed their satisfaction about the given business rebates, exemptions and facilities. Large number of respondents of

manufacturing companies stand on favour of provisions in tax act related to business rebates, exemptions and facilities whereas no one respondents of constructions company prefers the *yes* option. 35 percent of total respondents expressed their opinion that the existing business rebates, exemptions and facilities are not adequate. Out of 10 respondents of manufacturing category, 5 respondents expressed their dissatisfaction about the existing rebates, exemptions and facilities. A question '*what other required facilities do you suggest to reduce tax liabilities for industrialization?*' has been asked. It can be told that there is no logical opinion based on business categories because large numbers of respondents of manufacturing company expressed their satisfaction and dissatisfaction for the same rebates exemptions and facilities.

The respondents who have selected the *No* option among the given alternatives, have been requested to fill up about the other required facilities within the give options. Out of 34, 12 respondents expressed their dissatisfaction about the existing business rebates, exemptions and facilities. The opinion of respondents who stressed for other required facilities to minimize tax liabilities for industrialization presented in following table.

Table 4.7(ii)***Suggestion for Required Facilities for Industrialization through the Way of Tax Reduction***

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>a. By increasing the amount of rebates, deductions, exemptions and concession</i>	<i>1</i>	<i>-</i>	<i>1</i>	<i>-</i>	<i>2</i>	<i>17</i>
<i>b. By increasing the period of carrying forward of losses</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0</i>	<i>0</i>
<i>c. By providing the facilities of carry backward of losses to all business organizations</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0</i>	<i>0</i>
<i>d. By providing two or more than two types of concessions simultaneously when firm falls on given condition</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0</i>	<i>0</i>
<i>e. All of above</i>	<i>1</i>	<i>3</i>	<i>1</i>	<i>5</i>	<i>10</i>	<i>83</i>
<i>Total</i>	<i>2</i>	<i>3</i>	<i>2</i>	<i>5</i>	<i>12</i>	<i>100</i>

From the above table, it is observed that 2 respondents, out of 12, preferred the option *by increasing the amount of rebates, deductions, exemptions and concession to*

reduce tax liabilities for industrialization. Remaining all respondents preferred that not only particular facility can't motivate to for industrialization, multi-dimensional reforms required to its smooth movement and select the *all of above* option which represent the 83 percent of total respondents.

4.7.1 Opinion of Respondents on Exemptions Limit Provided in Act

An amount allowed by law as a reduction of income that would otherwise be taxed. The government has increased the personal exemptions limit by Rs. 15,000 to both individual and couple in fiscal year 2064/65. The limit of personal exemptions for individual and couple had been given to Rs. 1,00,000 and Rs. 1,25,000 respectively in fiscal year 2062/63. For acquiring the opinion of respondents about the exemption limit, a question '*Is exemption limit provided in tax act sufficient for industrial development?*' has been included in the set of questionnaire. The opinion of respondents has been presented in the following table.

Table 4.7.1

Opinion of Respondents on Exemptions Limit

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Very low</i>	6	2	5	4	17	50
<i>Satisfactory</i>	3	4	-	6	13	38
<i>Sufficient</i>	-	-	-	-	-	-
<i>I don't know</i>	1	1	2	-	4	12
<i>Total</i>	10	7	7	10	34	100

From the above table, it is observed that 50 percent of respondents out of 34 expressed their opinion that the exemption limit becomes very low. Based on business categories, large portion of respondents of trading preferred to select the option that the tax exemptions limit is very low. 13 respondents expressed their opinion as satisfactory on existing exemptions limit which represents the 38 percent of total respondents. No one respondents, within the sample size, expressed their opinion as the present exemptions limit given by government is sufficient. 4 respondents have selected the option that they have not normal concept about the exemptions limit which represents the 12 percent of total respondents. It can be told that some of investors have not knowledge about the business related laws.

4.7.2 Feasible Tax Rate Range for Income from Export

Not only the taxed income of government promote the national income but also the creation of employment opportunities, utilization of natural resources and reduce in trade deficit improves the economic condition. Charging the high tax rate becomes harmful for the national economy in market-led economy because no one wants to invest if there are not possibility of net profit. Hence the government has to minimize the tax rate continuously and also strongly motivate to the export related business.

A question '*For an export business, which is the feasible tax rate range to promote investment?*' has been included and the opinion of investors have been presented in the tabular form as follows.

Table 4.7.2***Opinion of Respondents about tax Rate Range on Income from Export***

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>0-5 %</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>8</i>	<i>23</i>	<i>68</i>
<i>6-10%</i>	<i>4</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>9</i>	<i>26</i>
<i>11-15%</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1</i>	<i>1</i>	<i>3</i>
<i>16-20%</i>	<i>1</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1</i>	<i>3</i>
<i>Total</i>	<i>10</i>	<i>7</i>	<i>7</i>	<i>10</i>	<i>34</i>	<i>100</i>

The government has taken the policy that the income from export will be treated as non taxable income. From the above table, opinion of respondents has also supported the government policy. 23 numbers of respondent referred that the income from export should be tax free or charge minimum rate. 68 percent of total respondents selected that the tax rate range should be 0-5 percent on income from export. Nepal has been facing the problem of trade deficit. If the government encourages the private sector by giving multi-dimensional facilities, the existing situation may reverse. 26 percent of total respondents referred that the government has to charge 6-10 percent tax on income from export business. 3 percent of respondents have opinion that 11-15 percent tax should be charged on income from export business where as remaining 3 percent of respondents have opinion that the tax rate on income from export business should be 16-20 percent.

4.7.3 Provision of Different Tax Rate for Different Business and its Impact on Economy

As per income tax act 2058, different types of tax rates are applicable to different types of business activities. Business activities that are related to industrial sector except tobacco and alcohol (special industry) should pay the tax at 20 percent. The business related to export and construction of infrastructure projects like construction of road, bridge, tunnel, rope way, sky bridge, electricity generating and transmission etc. also should pay only 20 percent tax. Business related to insurance, finance and banking activity and petroleum industry should pay 30 percent tax from their income. Other business, except stated above should pay 25 percent tax.

A question *‘There is provision of different tax rate for the different business. What types of impact does it do on economy?’* has been included in set of questionnaire to expose the opinion of investors about the different tax rate for different types of business activities. The opinion of respondents within the given alternatives have been presented in the tabular form as follows:

Table 4.7.3

Opinion of Respondents on Different Tax Rate for Various Business Categories

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manu- facturing</i>	<i>Total</i>	<i>%</i>
<i>a. Backward moving of economy</i>	-	-	1	-	1	3
<i>b. Balance development of all sectors of economy</i>	8	4	4	7	23	67
<i>c. Promote the entities related to infrastructure development</i>	-	2	1	2	5	15
<i>d. priority given to manufacturing entities rather than service and trading</i>	2	1	1	1	5	15
<i>Total</i>	10	7	7	10	34	100

The above tabulated data has been shown in multiple bar diagram as follows:

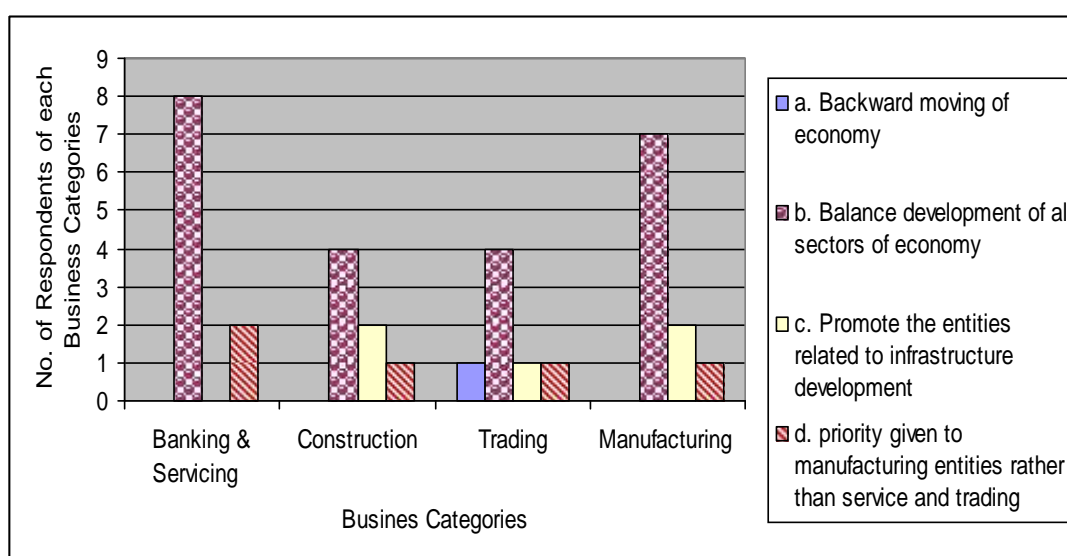


Figure 4.7.3: *Opinion of Respondents about Different Tax Rate for Various Business Categories*

From the above table and diagram, it is observed that large number of respondents have stranded on favour of government policy. 23 respondents, out of 34, expressed their opinion that the different tax rate should impose to different business categories for the balance development of country and all business sectors which represents the 67 percent of total sampled respondents. Business of banking category have to pay the 30% tax of their taxable income but the large numbers and portion of respondents of this category selected the opinion that different tax rate for different business categories able to make the balance development of all sectors of economy. 15% of total respondents expressed their opinion that impose of different tax rate for different business and charge low tax rate to the infrastructure construction business is to promote the entities related to infrastructure development.

15% of respondents have opinion that government has charged only 20% tax on taxable income to special manufacturing company which shows that the government has given priority to manufacturing entities rather than service and trading.

3% of respondents have opinion that charging of different tax rate to different business categories becomes against the market-led economy hence such types of provision moves the economy backward.

4.7.4 State of Respondents with the Facilities Provided in the Income Tax Act, 2058

To analyze the aggregate opinion of respondents about the Income Tax Act, 2058, a question '*Are you satisfy with the facilities provided in the income tax act, 2058?*' has been included in the set of questionnaire. The opinion of respondents has been presented in the tabular form as follows:

Table 4.7.4

State of Respondents about the Income Tax Act 2058

<i>Business Options</i>	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Yes</i>	2	2	1	2	7	21
<i>No</i>	1	1	1	3	6	17
<i>To some extent</i>	7	4	5	5	21	62
<i>Total</i>	10	7	7	10	34	100

From the above table it is observed that 7 numbers of respondents, out of 34, have expressed their opinion on the favour of existing income tax act which represent the 21 percent of total respondents. 6 respondents have opinion on against the existing tax act which represent the 17 percent of total respondents.

Large number of respondents, 21 out of 34 have expressed their opinion neither on the favour nor on against the income tax act 2058. From the above data it is observed that the government has to collect the opinion of related persons and have to amend the act and rules to adjust them with the changing business environment. Implementation of act and rules without the strong support of majority of people becomes harmful for both government and citizen of the country.

The respondents who have selected the *No* option have been given a next question ‘*what do you suggest to create better*

investment environment?’ For this question five options have been given. All the respondents have selected that *All of above* option. The above given alternatives are: (i) *Remove the complicated provisions in the act and rules*, (ii) *provision of instructors to manage entity properly* (iii) *Reduce the tax rate and allow to use the multiple*

concessions (iv) Incorporate tax free provision at least for two years of establishment of the any business.

4.8 Opinion of Respondents on the Facilities Provided in Industrial Enterprise Act 2049

Industrial Enterprise Act, 2049 also play an importance role to motivate the investors for industrialization. A question '*Are you satisfy with the provision mentioned in industrial enterprise act, 2049?*' has been included in the set of questionnaire to expose their opinion about this act. The opinion of respondents within the sample size has been presented in the tabular form as follows:

Table 4.8

State of Respondents about the Industrial Enterprise Act, 2049

<i>Options</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>Yes</i>	1	2	1	1	5	15
<i>To some extent</i>	8	5	6	8	27	79
<i>No</i>	1	-	-	1	2	6
<i>Total</i>	10	7	7	10	34	100

The collected data in above table has been presented in multiple bar diagram as follows:

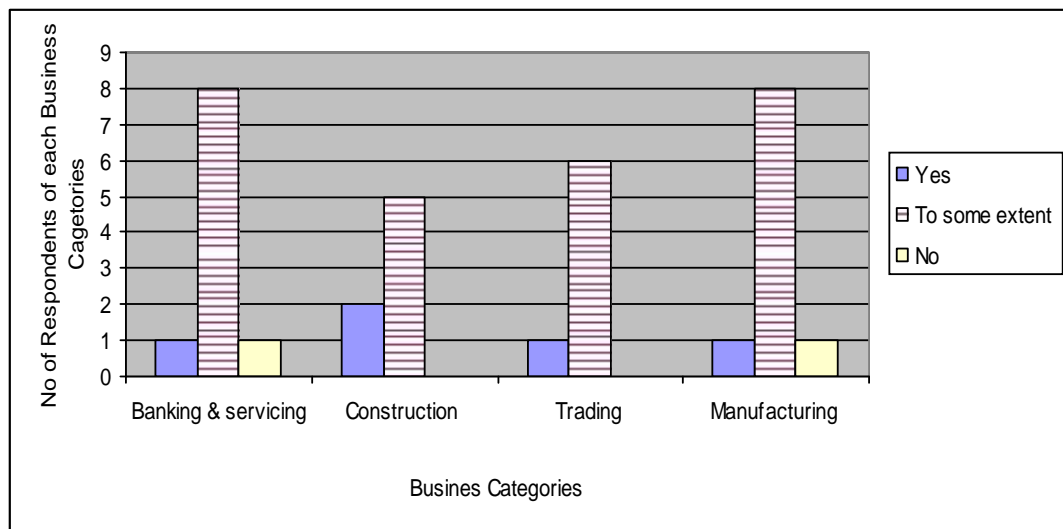


Figure 4.8 : No of Respondents with Their Opinion of Various Business Categories

From the table 4.8 and figure 4.8, it is observed that least numbers of respondents have strong support to the Industrial Enterprise Act, 2049. Only 5 respondents, out of 34, have selected the option that they are satisfied through the existing industrial enterprise act which represent 15 percent of total respondents. A

question, why do you select the 'yes' had been asked to the respondents and they answered that the government never put into action the act against the citizen of country in the existing situation.

Large numbers of respondents have selected the option 'To some extent'. 27 respondents have opinion that some of the provision in this act are on the favour of investors and whole country but can't be completely preferred. 79 percent of total respondents have preferred this option. It can be told that some of respondents have not satisfaction with the act. If they select the option 'No' they have to give the reasons of their dissatisfaction. Those respondents who are dissatisfied with this act and have not logical reasons to answer the given question, they have also selected the *To some extent* opinion.

Only 2 respondents have selected the *No* option which represents the 6 percent of total respondents. The respondents who selected 'No' have to answer the question '*If not, what provision is required to amend for balance development of the different region?*' Out of 2, only one respondents has given the reasons. The reasons given by the respondents has been written in his own words as follows:

- Long term clear cut policy should be enacted.
- New government must not have authority to amend or change the rules within time defined by rules.
- Each and every laws and rules should be clear.

4.9 Objectives of Industrial Policy 1992 and Priority given to the Objectives by the Selected Industries

Industrial policy, 1992 is also business related rules which has been enacted to regulate, to promote and to clarify the objectives of government towards the industries. Government amends act, laws and rules based on objectives indicated in policy. To analyze the opinion of respondents based on priority given by the selected industries to the objectives of industrial policy, a question '*On the basis of priority given by your company, please rank the objectives of industrial policy, 1992.*' has been prepared and included in the set of questionnaire. The respondent have been requested to assign 1 for most preferable and 5 for least preferable. The weight assigned by the respondents have been cumulated. The respondents who have not assigned the total given alternatives are not included as respondents because this incomplete assign change the result and becomes bias. The opinion of the respondents have been changed into the form of assigning 5 for most preferable alternative and continuously upto 1 for least preferable alternative when the cumulative table prepared for the convenience to researcher, readers and designer.

The table of cumulative of assigned weight have been presented based on business category in the appendix B.

The cumulative data from appendix B have been presented in the table.

Table 4.9(i)

Tabulation of Weight of each Objectives of Industrial Policy

<i>Business categories</i>	<i>Objectives of Industrial Policy</i>				
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
<i>Banking a Servicing</i>	34	21	28	35	32
<i>Construction</i>	21	7	17	21	24
<i>Trading</i>	20	8	20	26	16
<i>Manufacturing</i>	25	16	32	30	17
<i>Total</i>	100	52	97	112	89

The total ranked weight have been shown in table 4.9(i). *Creation of employment opportunities* has been assigned the highest priority. *Increase the contribution of industrial sector to the national economy* has given the second priority. *Utilization to local resources* has assigned the third priority. *Balanced regional development* has been assigned the forth priority and *emphasis for the establishment of export oriented industries* has assigned the last priority.

For finding the opinion of respondents to which objectives of industrial policy has given the highest priority, we have to equivalent to the given ranking weight based on ten number of respondents of each business categories in this study because the given weight in different size of sample can't be compared for actual result in figure. For this, it has to multiply to each ranking weight of respective cells by the formula:

$$\frac{\text{Based number of respondents}}{\text{Actual respondents}}$$

Then the following table can be obtained through table no. 4.9(i)

Table 4.9(ii)

Equivalent of Cumulative Ranking Weight

<i>Business Categories</i>	<i>No of Respondents</i>	<i>Based Respondents</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>Total</i>
<i>Banking a servicing</i>	10	10	34	21	28	35	32	150
<i>Construction</i>	6	10	35	12	28	35	40	150
<i>Trading</i>	6	10	33	13	33	44	27	150
<i>Manufacturing</i>	8	10	31	20	40	38	21	150
<i>Total</i>	30	40	133	66	129	152	120	600

Table no. 4.9(ii) has been shown in multiple bar diagram as follows:

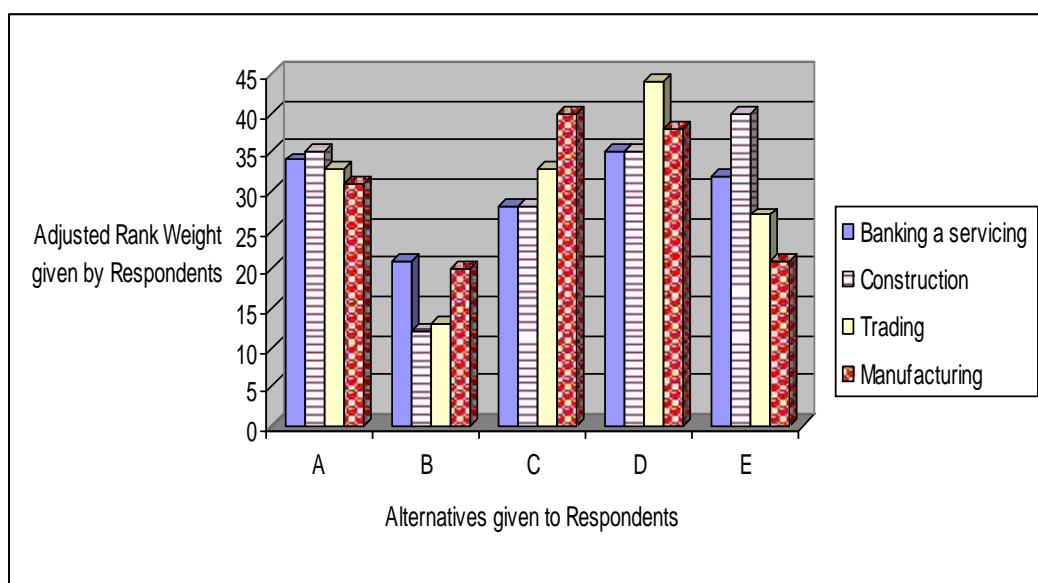


Figure 4.9: *Priority given by Respondents to the Objectives of Industrial Policy.*

From the above table and figure, large numbers of respondents have given the most priority to alternative 'd' *creation of employment opportunity*. The height of each bar shows that what types of business has given higher priority to the given objective of industrial policy, 1992. Alternative 'a', *increase the contribution of industrial sector to the national economy* has been given the second priority. Construction company has given highly stressed to this option. Alternative 'c', *utilization of local resources* has been given third priority among the given alternatives. Among the sampled business categories, manufacturing companies has given highly stress to this alternative. Alternative 'e' has given the forth priority among the given five alternatives construction companies have given the highly stress than the others to *balanced regional development* and last priority has been given to the alternative *emphasis for the establishment of export oriented industries*. All the selected business categories have assigned the least priority for *establishment of export oriented industries* than other given alternatives which proves that Nepal has to face the *trade deficit* problem upto this time when the investors will not have given the higher priority.

4.10 Barriers for the Acquisition of Foreign Investment

There are various problems for the acquisition of foreign investment. Provisions in act and rules can't be avoided as strong barrier for the foreign investment. Among the various provision some of them have been given as alternatives to select the respondents as the main barrier. The opinion A question '*which is the strong barrier provision in act and rules for the acquisition of foreign investment?*' has been included in the set of questionnaire. of respondents to the given alternatives have been presented in the table as follows:

Table 4.10***Opinion of Respondents on Barriers for the Acquisition of Foreign Investment***

<i>Given alternatives</i>	<i>Business Categories</i>					
	<i>Banking & Servicing</i>	<i>Construction</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Total</i>	<i>%</i>
<i>a. Licence system</i>	2	1	1	-	4	12
<i>b. Provision for repatriation</i>	-	-	-	-	0	0
<i>c. Registration procedure</i>	1	-	1	-	2	6
<i>d. Poor infrastructure</i>	3	3	2	5	13	38
<i>e. Any others</i>	-	-	-	-	-	-
<i>f. All of above</i>	4	3	3	5	15	44
<i>Total</i>	10	7	7	10	34	100

From the above table it is observed that 15 no. of respondents have selected the *all of above* alternative which proves not only the given alternatives are the main barriers but also others are equally affect for the acquisition of foreign investment. 44 percent of total respondents have been preferred this option. Secondly, large numbers of respondents have selected the *poor infrastructure* as main problem for acquisition of foreign investment. 38 percent of total respondents have selected this option. It can be told that the development of infrastructure is pool factor for the investors. If it becomes poor no one attract to invest in our country. Out of 34, 4 respondents have selected the *license system* as main barrier for acquisition at foreign investment and remaining 2 respondents preferred to *registration procedure*.

4.11 Finding of the Study

Nepal has least numbers of operated industries either on private or on public investment. The employed technology, system and process are irrelevant at present global market. Problems of unemployment, trade deficit, poor national economy, poor human development index etc. are the indicators of poor industrialization of country. The major findings of the research work have been presented below.

- 1) At present condition, 71% of companies use the tax planning to reduce the tax liabilities. Remaining 29% companies ignore the tax planning because of lack of expertise to make proper tax planning, cost of tax planning is higher than the tax saving and confused in related act and rules. The extent of tax planning has been applied in Nepalese companies moderately.
- 2) The prerequisite to use tax planning are clarity in related act and rules, additional incentives required than the existing provisions, sufficient of tax experts to adjust the provided incentives and when they extend their firms' capacity.
- 3) 100% respondents have opinion that there is direct relationship between tax planning and industrialization. Tax planning promotes the pace of industrialization by reducing tax liabilities, by providing equal benefit to investors and government, by providing the framework of proposed industry. There is association between tax incentives and industrialization directly. 91% of respondents have selected this option. The definition of tax planning, "Proper arrangement of tax incentives provided in the act and rules to reduce the tax liabilities is called tax planning". 59% of respondents satisfy with this definition. This research study shows that, when the Nepalese investors intend to establish the new business, 38% of investors prepare the tax plan along with the business plan. 21% prepare after the completion of

business plan, 12% prepare just before the run of business and 29% prepare yearly basis.

- 4) About the tax incentives, 41% of sampled respondents have not knowledge about it. 35% and 24% of respondents expressed their dissatisfaction and satisfaction respectively. 50%, 38% and 12% of sampled respondents have opinion about the existing exemption limit is very low, satisfactory and they have not knowledge about exemption limit respectively. The opinion of respondents about the tax rate range for income from export business, 68% of respondents have opinion that it should be range of 0-5% of taxable income, 26% have 6-10% range and remaining respondents have opinion that the tax rate range should 11-20%. About the provision of different tax rate for different business, 67% of respondents have opinion that it promotes balance development of all sectors of economy. 15% / 15% of respondents have opinion that it promotes the entities related to infrastructure development and priority given to manufacturing entries respectively. For the facilities provided in the Income Tax Act, 2058, 62% of respondents have satisfied to some extent. 21% and 17% of respondents expressed their satisfaction and dissatisfaction respectively. For the industrial enterprise Act, 2049, 79% of respondents expressed their satisfaction to some extent. 15% and 6% of respondents expressed their satisfaction and dissatisfaction respectively.
- 5) The industrial policy of the government plays an importance role for the industrial growth. The highest priority has been given by the respondents to the objectives of industrial policy, 1992 'creation of employment opportunities'. Increase the contribution of industrial sector to the national economy, utilization of local resources, balance regional development and emphasis for the

establishment of export oriented industries have been assigned second, third, fourth and fifth priority respectively. The opinion of respondents on barriers for the acquisition of foreign investment, 38% stressed to poor infrastructure. 12% and 6% stressed license system and registration procedure respectively. 44% of respondents have opinion that multiple factors are equally responsible as barriers for the acquisition of foreign investment.

Chapter - V

Summary, Conclusion and Recommendation

5.1 Summary of the Study

The term 'tax planning' is the way of minimizing the tax liabilities without violation the laws and sprit of law. When the total tax liabilities of investors can be minimized then automatically the profit becomes higher. The condition of maximum profit to the investors promote for re-investment. When the large numbers of people have idea for creation and investment in new business this invites the industrialization to the country. How do minimize the expenses means how do maximize the profit.

Government has enacted various act and rules to promote the industrial development and economic growth of country but these laws and rules related to business can't be adjusted with the changing environment of business. The factors which determines the industrial growth are: stability of government, policies initiated by the government, political situation, international relations, legal environment, technological environment, facility of market, economic condition, required infrastructure to the business, raw materials etc.

Nepal has narrow range of revenue due to the poor infrastructure development, low return on investment, lack of precious natural resources, poor human development index etc. Income of government mostly uses in administrative expenditure so that Nepal moves backward in development if it does not get foreign aid. Tax evasion, avoidance, low rate of profit, least reinvestment etc. are the factors of poor economic change.

Research methodology is very essential to the researcher for the proper solution of research problem and to achieve the conclusion. The blue print by which the objectives of researchers achieve through the

collecting of data, processing and analyzing to reach the findings is called research methodology. Research design is an integration system that guides the researchers in formulating, implementing and controlling the study. Descriptive and qualitative research designs have been used to meet the research objectives. Descriptive research studies are those studies which concern with describing the characteristics of a particular individual or a group. Qualitative research is an approach involves the exploration and interpretation of perceptions, opinions and behaviour of small samples of individuals. For the easier to the research work, cluster convenience sampling methods have been used. Only 34 respondents have been filled up the scheduled questionnaire from different business categories. This research work mostly based on primary data.

The sample which has been taken from the various categories such as: Banking and servicing, constructions, trading and manufacturer etc. and the numbers of respondents of these groups have been taken 10, 7,7 and 10 respectively. Most of the respondents have qualification of master degree in formal education. 71% of total sample size have opinion that they have prepared the tax plan to minimize the tax liability. 29% of respondents have not prepared the tax plan because of confused in related acts and rules, lack of tax experts, cost of tax planning becomes higher than tax saving. Extent of tax planning has been applied in moderate level in Nepal.

No one investors have their desired to pay the high tax without adjustment of given facilities but they have paid tax without planning due to lack of clarity in related act and rules, poor facilities given to them, lack of tax experts, low productivity etc. Tax planning is a component to motivate the investors because when the investors prepare tax planning, it promotes the profit after tax which is the final goal of firm. Hence, tax planning is directly proportional to the industrialization. 100% respondents accept this concept. Tax planning

promotes the pace of industrialization by reducing the tax liability, by providing equal benefit to government and investors, by providing format of proposed industries etc. The opinion of respondents about the association between tax incentives and industrialization have selected the 'direct' by 91% of total respondents which shows that the rate of increase in tax incentives also increase the rate of industrialization.

The definition of tax planning given in questionnaire "Proper arrangement of tax incentives provided in the acts and rules to reduce the tax liability is called tax planning" have accepted totally by 59%, *to some extent* by 32% and remaining have different opinion. Tax plan is integrated part of business plan. If it is prepared with business plan, all the given facilities can be adjusted to minimize tax liabilities. 38% of total respondents have opinion that plan should be prepared along with preparation of business plan. On the other hand, 29% of total respondents have opinion that it is better to prepare tax plan in yearly basis.

Nepal has the least number of industries due to least capital investment. The opinion of 16 respondents about the problems of industrialization have selected the *all of above*: shortage of raw materials and trained manpower, high tax rate and low tax incentives, limited market and high transportation cost, poor infrastructure. Other remaining respondents have selected only one option as the problem in industrialization. Large numbers of respondents have not knowledge about the Income Tax Act, 2058. Some of them expressed their satisfaction with the given facilities where as others have opinion against the facilities given in the act. About the exemption limit 50% of respondents have opinion that the given exemption amount becomes very low, others 38% of respondents expressed their satisfactory and remaining 12% respondents have not knowledge about it. Out of 34, 23

respondents have opinion that the tax rate on income from export business charge at range of 0-5%.

The different tax rate charged to different business categories has different opinion of respondents. 23 respondents have opinion that different tax rate charged to different business categories required for balanced development of all sectors of economy. Others have opinion that the government has to charge the low tax rate to those business categories which have high uncertainty about profit and related to infrastructure development. Large number of respondents have opinion that the facilities provided in Income Tax Act, 2058 and Industrial Enterprise Act, 2049 are not sufficient so they expressed the opinion for *to some extent*.

Policies are the long-term vision to achieve the certain goal. Government of Nepal has also enacted some policies. Industrial policy, 1992 has enacted to manage the industrial sector of country. Some of objectives of industrial policy have given to the respondents for ranking. Larger numbers of respondents have given the highest priority to creation of employment opportunities. The second priority has been given to increase the contribution of industrial sector to the national economy. Third priority has given to utilized of local resources. Balanced regional development and emphasis for the establishment of export oriented industries have given the forth and fifth priority respectively.

Because of poor capital formation, the level of investment becomes very low. For economic growth, huge amount of capital invest and reinvest in the high profitable sector. Through the acquisition of foreign investment, the industrial growth can be brought into motion. The majority of respondents have opinion that poor infrastructure, licence system, registration procedure are main barriers for acquisition of foreign investment.

5.2 Conclusion of the Study

This research work has been conducted to collect the opinion of respondents related to industrial sectors. Through the generalization of their opinion, the condition of tax planning and industrial growth in our country has been tried to explore.

Through this research work, it can be said that large numbers of respondents have prepared the tax plan to reduce the tax liabilities but they have not completely used the provided facilities due to the lack of expertise knowledge. The main causes of ignoring the tax plan are small size of business, lack of business knowledge, minimum profit on investment, high cost of tax planner etc. The business which have high return, large in size large numbers of employees, mass production, expert decision makers etc. have prepared tax plan properly. Large numbers of medium size business have been adjusted general types of facilities, least numbers of large business prepare tax plan as much as possible where as small industries have been failure to adjust the common facilities to reduce tax liabilities which may bring the problems of tax evasion and avoidance.

Investors are unable to prepare the tax plan due to lack of clarity in related act and rules, low incentives provided in the existing act, lack of tax experts to prepare the better tax plan, small size of firm etc. are main problems in preparation of tax planning.

Tax planning and industrial growth are directly related because when the level of tax planning becomes higher, it reduces the tax liabilities and increase the net profit which motivate to the investors. Tax planning promotes the pace of industrialization by reducing the tax liabilities by providing the benefit to all citizens and by providing the format of proposed industry. Proper arrangement of tax incentives provided in the act and rules to reduce the tax liabilities is called tax

planning. There is direct relationship between tax incentives provided to investors and industrial growth.

To take great advantage from the tax planning, the investors have to prepare the tax plan along with the business plan because government has policy of balanced development of all business and each part of country. The percentage of new investors preparing the tax plan along with preparation of business plan becomes higher than the after completion of business plan, just before the run of business and yearly basis when the business operates.

Industrializations is defined as the conversion of unproductive capital, manpower and natural resources into productive through the use of modern technology. There are so many problems faced by Nepal for industrializations. Nepal has not sufficient amount of raw materials so that there is not possible of economic of scale in production system. There is scarcity of trained manpower and incentives given by the government to the industry also very low. The size of market is very small and the cost of transportation has also high. Poor infrastructure is the main problem faced by Nepal for industrialization.

Large numbers of investors have not interested about the facilities provided in act and rules. 41% of respondents have not concept about the Income Tax Act, 2058 and others respondents have more or less knowledge about the facilities provided in the act. The respondents who have expressed their dissatisfaction about the existing facilities have been stressed for increasing the amount of rebates, deductions, exemptions and concessions, for providing the facilities of carrying backward and forward of losses to all business and for providing two or more than two types of concessions simultaneously when firm falls on given condition.

The opinion of respondents about the exemption limit is unsatisfactory. They have opinion that the existing exemption limit

given by government have not motivated to the individual investors. For the reduction of trade deficit, the government has not charged tax on the income from export business. The government has charged the different tax rate for different business categories for the equalization of profit after tax. The respondents of different business categories have not any comment about the different tax rate. Most of the respondents have not knowledge about the Industrial Enterprise Act, 2049.

Industrial Policy, 1992 is the far-sighted vision of government for the management and regulation to the business environment. Nepalese investors have little knowledge about the industrial policy. Respondents of different business categories have assigned different rank for the given objectives of industrial policy. The first rank has been given to creation of employment opportunities and last rank has been given to emphasis for the establishment of export oriented industries.

The pace of acquisition of foreign investment is very low. For the boom economic growth, foreign investment is essential for Nepal because it has not large amount of capital. The main problems for acquisition of foreign capital are poor infrastructure, registration procedure, license system, provision for repatriation etc. such types of problems have to be solved for industrial growth in Nepal.

5.3 Recommendations

1. Investors should be encouraged to use the tax planning for the reduction of tax liabilities which controls the tax evasion tax avoidance and tax delinquency.
2. It is better for the extent of tax planning in the companies as much as possible. For this, they have to take the support of tax experts.
3. The required condition such as: clarity in related acts and rules, more incentives than the existing provision, sufficient of tax

experts etc. should be provided by the government for tax planning.

4. The investors have to be conscious about the business related act, laws and rules.
5. The investors have to prepare the tax plan along with the preparation of business plan which provides the direction to them.
6. Government should provide the facility of tax free for the income from export which helps to reduce the trade deficit.
7. Barriers for the acquisition of foreign investment are poor infrastructure license system, registration procedure, provision for repatriation etc. The responsible agencies have to manage them properly.

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4. To what extent tax planning has been applied in your company ?
 - a) Non at all []
 - b) Very little []
 - c) Moderate []
 - d) As much as possible []
5. In which condition would you be able to use the tax planning ?
 - a) Clarity in related acts and rules []
 - b) More incentives other than the existing provisions []
 - c) Sufficient of tax experts to adjust the provided incentives []
 - d) When the firm extend its capacity []
 - e) Non of above []
 - f) All of above []
6. Is there association between tax planning and industrialization ?
 - a) Yes []
 - b) No []
- 7.a How does tax planning promote the pace of industrialization?
 - i) By reducing the tax liabilities []
 - ii) By providing equal benefit to investors and government []
 - iii) By providing the framework of proposed industry []
 - iv) It promotes to become the state of legislation []
 - v) All of above []
8. What sort of association has the tax incentives with industrialization ?
 - a) Direct []
 - b) Indirect []
 - c) Inverse []
 - d) No association []
9. "Proper arrangement of tax incentives provided in the act and rules to reduce the tax liabilities is called tax planning." Do you agree with the statement ?
 - a) Yes []
 - b) No []
 - c) To some extent []
10. If you intend to establish a new business, when do you prepare the tax plan ?
 - a) Along with the preparation of business plan []
 - b) After the completion of business plan []
 - c) Just before the run of business []
 - d) Yearly basis when the business operates []
11. What is the main barrier for the industrialization in Nepal ?
 - a) Shortage of raw material and trained manpower []
 - b) High tax rate and less tax incentives []
 - c) Limited market and high transportation cost []
 - d) Poor infrastructure []
 - e) All of above []

12. Are the tax exemptions, rebates, deductions and concessions extended to the organizations under the existing tax law adequate ?
- a) Yes [] b) No [] c) I don't know []
- 12.b) What other required facilities do you suggest to reduce tax liabilities for industrialization ?
- i) By increasing the amount of rebate, deduction exemption and concession []
- ii) By increasing the period of carrying forward of losses []
- iii) By providing the facilities of carry backward of losses to all business organizations []
- iv) By providing two or more than two types of concession simultaneously when firms fall on given condition []
- v) All of above []
13. Is exemption limit provided in tax act sufficient for industrial development ?
- a) Very low [] b) Satisfactory []
c) Sufficient [] d) I don't know []
14. For an export business, which is the feasible tax rate range to promote investment ?
- a) 0–5 % [] b) 6–10% [] c) 11–15% [] d) 16-20% []
15. There is provision of different tax rate for the different business (special, export & construction, Banking, trading, others). What types of impact does it do on economy ?
- a) Backward moving of economy []
- b) Balance development of all sectors of economy []
- c) Promote the entities related to infrastructure development []
- d) Priority given to manufacturing entities rather than service and trading []
16. Are you satisfy with the facilities provided in the income tax act 2058 ?
- a) Yes [] b) No [] c) To some extent []
- 16.b) If not, what would you suggest to create better investment environment ?
- i) Remove complicated provisions in the act and rules []
- ii) Provision of instructors to manage entity properly []
- iii) Reduce in tax rate and allow to use the multiple concessions []
- iv) Incorporate tax free provision at least for two years of establishment of the any business []
- v) All of above []

17. Are you satisfy with the provision mentioned in Industrial enterprise act 2049 ?
- a) Yes [] b) To some extent [] c) No []
- 17.b) If not, what provision is required to amend for balance development of the different regions ? Please give your opinion.
- i)
- ii)
- iii)
- iv)
- v)
18. On the basis of priority given by your company, please rank the objectives of industrial policy 1992 (1 for most preferable and 5 for least preferable).
- a) Increase the contribution of industrial sector to the national economy []
- b) Emphasis for the establishment of export oriented industries []
- c) Utilization of local resources []
- d) Creation of employment opportunities []
- e) Balanced regional development []
19. Which is the strong barrier-provision in act and rules for the acquisition of foreign investment.
- a) License system [] b) Provision for repatriation []
- c) Registration procedure [] d) Poor infrastructure []
- e) Any other please specify []
-
-
- f) All of above []

Appendix 'B'

Cumulative table 1: *Cumulative of assigned weight of banking and servicing category*

<i>Options\</i> <i>Respondents</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
<i>1</i>	<i>3</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>5</i>
<i>2</i>	<i>3</i>	<i>5</i>	<i>2</i>	<i>4</i>	<i>1</i>
<i>3</i>	<i>5</i>	<i>2</i>	<i>4</i>	<i>3</i>	<i>1</i>
<i>4</i>	<i>5</i>	<i>3</i>	<i>2</i>	<i>1</i>	<i>4</i>
<i>5</i>	<i>1</i>	<i>5</i>	<i>2</i>	<i>3</i>	<i>4</i>
<i>6</i>	<i>3</i>	<i>1</i>	<i>2</i>	<i>5</i>	<i>4</i>
<i>7</i>	<i>2</i>	<i>1</i>	<i>5</i>	<i>4</i>	<i>3</i>
<i>8</i>	<i>5</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>3</i>
<i>9</i>	<i>5</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>3</i>
<i>10</i>	<i>2</i>	<i>1</i>	<i>4</i>	<i>3</i>	<i>4</i>
<i>Total</i>	<i>34</i>	<i>21</i>	<i>28</i>	<i>35</i>	<i>32</i>

Cumulative table 2: *Cumulative of assigned weight of construction company*

<i>Options\</i> <i>Respondents</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
<i>1</i>	<i>4</i>	<i>2</i>	<i>1</i>	<i>5</i>	<i>3</i>
<i>2</i>	<i>5</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>3</i>
<i>3</i>	<i>4</i>	<i>1</i>	<i>3</i>	<i>2</i>	<i>5</i>
<i>4</i>	<i>4</i>	<i>1</i>	<i>3</i>	<i>2</i>	<i>5</i>
<i>5</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>6</i>	<i>2</i>	<i>1</i>	<i>3</i>	<i>5</i>	<i>4</i>
<i>7</i>	<i>2</i>	<i>1</i>	<i>5</i>	<i>3</i>	<i>4</i>
<i>Total</i>	<i>21</i>	<i>7</i>	<i>17</i>	<i>21</i>	<i>24</i>

Cumulative table 3: *Cumulative of assigned weight of trading business category*

<i>Options\ Respondents</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
<i>1</i>	<i>3</i>	<i>2</i>	<i>4</i>	<i>5</i>	<i>1</i>
<i>2</i>	<i>5</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>3</i>
<i>3</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>4</i>	<i>2</i>	<i>1</i>	<i>4</i>	<i>5</i>	<i>3</i>
<i>5</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>5</i>	<i>4</i>
<i>6</i>	<i>5</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>3</i>
<i>7</i>	<i>4</i>	<i>1</i>	<i>5</i>	<i>3</i>	<i>2</i>
<i>Total</i>	<i>20</i>	<i>8</i>	<i>20</i>	<i>26</i>	<i>16</i>

Cumulative table 4: *Cumulative of assigned weight of manufacturing Company*

<i>Options\ Respondents</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
<i>1</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>2</i>	<i>4</i>	<i>2</i>	<i>5</i>	<i>3</i>	<i>1</i>
<i>3</i>	<i>3</i>	<i>1</i>	<i>5</i>	<i>4</i>	<i>2</i>
<i>4</i>	<i>3</i>	<i>1</i>	<i>2</i>	<i>5</i>	<i>4</i>
<i>5</i>	<i>2</i>	<i>3</i>	<i>5</i>	<i>4</i>	<i>1</i>
<i>6</i>	<i>5</i>	<i>2</i>	<i>1</i>	<i>4</i>	<i>3</i>
<i>7</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>8</i>	<i>4</i>	<i>1</i>	<i>5</i>	<i>3</i>	<i>2</i>
<i>9</i>	<i>2</i>	<i>5</i>	<i>4</i>	<i>3</i>	<i>1</i>
<i>10</i>	<i>2</i>	<i>1</i>	<i>5</i>	<i>4</i>	<i>3</i>
<i>Total</i>	<i>25</i>	<i>16</i>	<i>32</i>	<i>30</i>	<i>17</i>

*Option*¹ *A. Increase the contribution of industrial sector to the national economy*

B. Emphasis for the establishment of export oriented industries

C. Utilization of local resources

D. Creation of employment opportunities

E. Balanced regional development

Appendix 'C'

List of Sample Companies

I Banking and Servicing Companies

1. Youth Travels and Tours (P.) Ltd. Kathmandu.
2. Butwal Finance Ltd. Kathmandu.
3. Alliance Insurance Company Ltd. Kathmandu.
4. N. Amatya and Co. (Auditing and Consultancy) Kathmandu.
5. Nepal Investment Bank Ltd. Kathmandu.
6. Nepal World Consult (P.) Ltd. Kathmandu.
7. Revive Nepal (P.) Ltd. Kathmandu.
8. Western Union Money Exchange (P.) Ltd. Kathmandu.
9. NB. International Manpower (P.) Ltd. Kathmandu.
10. Lumbini Bank Limited, Kathmandu.

II Construction Companies

1. Purna Metal Concern Industry, Kathmandu.
2. Patan Iron and Steel Industry, Kathmandu.
3. Atlas Engineering and Construction (P.) Ltd. Kathmandu.
4. Purna and Sons Construction (P.) Ltd. Kathmandu.
5. National Structure A.E. (P.) Ltd. Kathmandu.
6. Sudarshan Nirman Samagri Udyog, Kathmandu.
7. Nakashu Engineering (P.) Ltd. Kathmandu.

III Trading

1. Prasanta Trading House (P.) Ltd. Kathmandu.
2. Bottlers Nepal Limited, Kathmandu.
3. AD. Campaign (Nepal) (P.) Ltd. Kathmandu.
4. Dugad Brother and Sons (P.) Ltd. Kathmandu.
5. Mausam Trading (P.) Ltd.
6. Siprodi Trading House (P.) Ltd. Kathmandu.
7. Buddha Academy (P) Ltd. Kathmandu.

IV Manufacturing Companies

1. Kathmandu Milk Supply Scheme, Balaju.
2. Himal Tents (P) Ltd. Kathmandu.
3. Adhunik Feed production (P) Ltd. Kathmandu.
4. Allied Foam Industry (P) Ltd. Kathmandu.
5. Annapurna Households Appliances (P) Ltd. Kathmandu.
6. Biju Plastic Industry (P) Ltd. Kathmandu.
7. Sri Confectionary (P) Ltd. Kathmandu.
8. Everest Foam Industry (P) Ltd. Kathmandu.
9. K.B. Pet Industry (P) Ltd. Kathmandu.
10. Aakash Plastic Industry (P) Ltd. Kathmandu.