

A STUDY ON SCOPE AND PRACTICES OF TAX PLANNING IN NEPAL

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RECOMMENDATION

This is to certify that this thesis

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Entitled:

“A Study on Scope and Practices of Tax Planning in Nepal”

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by:

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“A Study on Scope and Practices of Tax Planning in Nepal”

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DECLARATION

I hereby declare that research work reported as thesis entitled “A Study on Scope and Practices of Tax Planning in Nepal” submitted to the Faculty of Management, Central Department of Management, Tribhuvan University, is my original work. It is carried out as the partial fulfillment of the requirements for the degree in Master of Business Studies (MBS) under the supervision and guidance of Prof. Dr. Santosh Raj Poudel, Faculty of Management, Central Department of Management, Tribhuvan University, Kirtipur.

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YUBAK LAMSAL

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LIST OF ABBREVIATIONS

A/C	=	Account
B. S.	=	Bikram Sambat
BOOT	=	Built, Own, Operate and Transfer
BOT	=	Built Own Transfer
Co.	=	Companies
Comm.	=	Commercial
Dept.	=	Department
F/Y	=	Fiscal Year
GON	=	Government of Nepal
Govt.	=	Government
i.e.	=	That is
Insur.	=	Insurance
IRD	=	Inland Revenue Department
ITA	=	Income Tax Act
Ktm.	=	Kathmandu
Ltd.	=	Limited
MBS	=	Master of Business Studies
Mfg.	=	Manufacturing
MoF	=	Ministry of Finance
No.	=	Number
PCC	=	Pollution Control Cost
Pvt.	=	Private
R & D	=	Research and Development
Sec.	=	Section
T. U.	=	Tribhuvan University

VAT = Value-added Tax

Yr. = Year

CHAPTER – I

INTRODUCTION

1.1 General Background

The term 'Tax' refers to the levy or royalty charges by the nation towards citizens who have capacity of paying. In other words, it is the cost for people for getting services provided by the government. From the point of view of the government the tax is charged for operating its mechanism and providing services to citizens as well as tax is collecting for the purpose of reallocation or distribution of wealth getting from who have and providing to who have not.(Koirala, 2008). Planning is the primary function of management. The planning is the root of the success and starting of the action. That's why, it is said that "the well planning is the half success of action as well as a forward step towards achievement of its end." Planning is the first action of the management process, after the finishing of it only other remaining function will be done. The management process has the four steps planning, organizing, implementation and controlling. Among those planning is the first and the foremost important function because without it completion other function cannot be started. Planning is the road map and future guidelines of actual action. Planning is the paper work as per which the functions are done and success will be achieved on the desired field (Robinson, 1998).

Thus, Tax planning refers to the planning of future activities in a way that reduces the tax liability. Tax planning can be defined as an arrangement of one's financial and economic affairs by taking complete legitimate benefits of all deductions, exemptions, allowances and rebates so that tax liability reduces to a minimum. Tax planning does not take a form of "colorable devices" and has no intention to deceit the legal spirit behind the tax law. Tax planning is one of the ways of reducing the tax amount by the taxpayer. Generally tax planning is the art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concessions, allowances and relief provided for in the tax laws. It is the

genuine use of facilities provided in the tax law (Chander, Subhash and Om Prakash, 1984:53-63).

This study is conducted on the Scope and Practices of Tax Planning in Nepal. The topic is mainly focus on the tax planning process, its scope and its practice on real business environment. So to know the detail about the topic we have to familiar about the term tax planning. This phrase tax planning consists of two terms, one is tax and another is planning. The term tax is related with the revenue collection of government as well as cost for services provided by government to business entity as well as household. There is only two things truth on this world; the first one is death and the second one is tax. That's why; the tax is compulsion to every citizen towards its own nation. As like, noone can be saved him from the death; every person should pay or bear the tax who have capacity and within the tax boundary.

The word tax planning is made from the combination of two words tax and planning. Tax means compulsory payment to the government and planning means taking decision about the future by choosing the best from different alternatives in advance. Tax planning is totally concerned with activities to be undertaken in future. Tax planning is to be done in advance with a view to minimizing the payment of tax within the framework of tax law (Kandel, P.R., 2007: 331-340). Tax planning is a legal, ethical and economic device of minimizing tax burden. Tax law encourages using this facility. It establishes a good relationship between the government and business community. Tax planning is not only reducing tax liability of tax payer but also improve the economy of a country.

1.2 Focus of the Study

This study is mainly concerned with the tax planning of the business perspectives of non-manufacturing sector in Nepal. Tax planning is made to reduce the tax payment amount but it means not that tax is reduced by the tax evasion. Tax planning and tax evasion both reduces the tax liability; the first is done legally and the second one is

done unethically and immorally. So, the tax planning makes efforts to reduce tax payment through morally and ethical behavior.

There are four ways of minimizing tax liability; tax evasion, tax avoidance, tax delinquency and tax planning. Among those taxes planning is ethical, legal and moral way of reducing tax amount for business person or entity. This study is made to analyze how the tax planning is realized on Nepalese business sectors and its scope on related areas. Thus, the research will be conduct to find out the scope of tax planning as well as its significance and practice in business entities. The level of awareness about the tax planning and its significance to business of business person will be also studied under the area of this study. So, this study mainly focuses on the need of tax planning and its scope on other related areas as well. That's why the study covers the area of tax planning for Nepalese business sectors and enterprises and its usefulness to those selected concerns.

1.3 Statement of Problems

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

Some specific problems are faced to practice of tax planning those are as given under:

1. Lack of proper implementation of tax policies.
2. Lack of trained manpower for the application of tax planning
3. Lack of public awareness.
4. Relation between study and application of tax planning in Nepal.
5. System of tax planning follows by the organization.

Thus, this study will be tried to find out the answers of the following research questions:

1. What is the level of tax planning practice on the Nepalese enterprises?
2. What are the areas of tax planning for Nepalese enterprises?
3. What is the level of awareness about the need of tax planning in the Nepalese business person?
4. What do you suggest to Nepalese organization to use tax planning in Nepal?

1.4 Objectives of the Study

This study has been conducted with the aim of identifying scope and level of practices of tax planning by Nepalese taxpayers within the boundary of tax act and its rules and regulation. So, the main objective of the present study is to analyze the scope and practice of tax planning in Nepal. Beside this other objectives hold by this research work for the specific period of time and sample of study as well as study area are as follows.

1. To analyze the scope and practices of tax planning in Nepal.
2. To examine the use of tax planning in Nepalese organization.
3. To make appraisal of use tax planning in Nepalese organization.

1.5 Significance of the Study

This research will provides information relating to practice of tax planning tools and techniques used in Nepalese enterprises. It will analyze the actual tax planning practices implemented by the selected Nepalese enterprises and its significance to them. It is beneficial for those people who are directly or indirectly related with tax and tax planning field.

The purposed study will be significance in the following ways:

- It will examine tax planning tools and technique followed by business institutions of Nepal.
- It will explain the level of tax planning practices in the selected entities.
- It will provide vital information regarding the problems faced by those institutions while tax planning.
- It is useful to concerned company, investor, policy maker, manager, and researcher of taxation.
- It will provide literature to the researchers who want to commence further research in this field.

1.6 Limitations of the Study

The study will be done for the partial fulfillment of master of business studies. The study will be conducted within certain limitation and constraints. Some of them are:

- This research focuses on tax planning tools and technique practiced by selected Nepalese enterprises. So the finding might not be generalized to the whole economy.
- This study mainly focuses the practice of some important tax planning tools and technique.
- Data constraints are common phenomenon in the study. The study will be based on primary data to avoid bias but still it may be bias to some extent.
- The study will be based on the response and the data available from the respondent.

1.7 Organization of the Study

Whole study is mainly divided into five different chapters. The title of each of these chapters is 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 recommendations

Chapter - I: Introduction

It is the introduction chapter. It includes background of the study, focus of the study, statement of problem, objectives of the study, significance of the study and limitation of study.

Chapter - II: Review of Literature

It deals with review of literatures which includes conceptual, theoretical review and review of related studies or this chapter explains the review of the related literature done in national and international levels.

Chapter - III: Research Methodology

It is the research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

Chapter - IV: Data Presentation and Analysis

Data collected would be carefully examined and conclusion would be drawn. So that it could be presented. It deals with the presentation of data collection in table and analysis using rank correlation and necessary tools and interpretation of the result. And include general findings of the study and major findings of the study.

Chapter - V: Summary, Conclusion and Recommendations

It includes summary and conclusion of the study. It also deals with recommendations suggested.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is a necessary part of all studies. A literature review is the process of obtaining, locating, reading, and evaluating the research literature in the area of the interest of researcher. It is a way to discover what other researches in the area of problem selected has uncovered. The purpose is to develop some expertise in one's area, to see what can new contributions be made? And, will be able to receive some ideas for developing a research design. It is also a way to avoid investigating problems that have already been definitely answered (Wolf and Pant, 2008).

2.1 Conceptual Framework

This chapter is basically concerned with the review of literature relevance to practice of Tax Planning. It covers the theories and previous study on topic done by academicians and researchers within and outside the nations. This chapter is devoted to the concept of related pattern of the study which would be fruitful to solve the research problems. This framework would be helpful for gathering various knowledge and experiences. So the conceptual framework contains following backgrounds and experiences.

Different ways of minimizing the tax liabilities most of the people don't wish to pay any more taxes than their obligations permit. Legitimate and sometimes questionable tax minimization schemes or practices are adopted in order to reduce tax liability. Every people want to reduce tax liabilities as far as possible. There are different ways of reducing tax liabilities. They are tax evasion, tax delinquency, tax avoidance and tax planning.

2.1.1 Tax: A Historical Review

A tax has a long history. According to Manu, taxes should be laid as per the Shrastras. We can get the reference of tax in Shanti Parba of Mahabharata where Yudhisthir gets education about different political activities from Bhisma. Here, Bhisma said just a

person desirous of getting milk never obtains the same by cutting udders of his cow, so a kingdom inflected by improper devices or irregular practices never yield any profit for the kingdom. We find similar opinions in Pachantantra. In history, tax has caused many events that are of immense importance for the people of modern world. Whether it is a case of Corn Law imposed in England or the slogan rose as "no taxation without representation" in independence movement of USA, it is the tax that was the root item. Taxation caused the French Revolution of 1789, Boston Tea Party in USA and took the life of Charles I in England in 1748.

After the great depression of 90's, the function of government has been increased considerably for smooth functioning of the government has got various sources of revenue. Among the various sources of revenue of government the most important is tax. Generally tax is defined as compulsory payment to the government. Everybody on whom it is imposed should pay tax. He is punished in case of evasion. The taxpayer does not get liquid pro quo or equivalent benefit, from the government for paying tax. "A compulsory contribution from a person to the government to defray expenses incurred in common interest of all without reference to special benefit conferred." Seligman(2000).

Tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the resident of the states (Dhakal, 2001)."

In the context of Nepal also, the present tax system of the nation is not a readymade output. It has been crossed the different steps, process and reforms from the period of Lichhabi Age to this era of democracy. Although the systematic tax system is applied after the restoration of democracy in 2046, but the systematically taxation is levied by the government from the establishment of democracy in 2007 B.S. and the first budget

was announced in 2008 B.S., we can conclude that the systematically tax planning was begun from there.

A government can only impose tax to the natural person and legal person as per the prevailing laws. In the history of tax laws in Nepal, In Lichhabi period, the main source of revenue of the government was tax. There were tri-karas, Bhoga (tax on agriculture), Bhoga (tax on livestock) and Kara (tax on trade). Other different taxes were imposed on different areas. Anshubarma, one of the kings of Lichhabi period imposed water tax and religious monument repair tax. 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 continuation of the tax system of Malla period, i.e. based on land and trade. After unification, different types of taxes like land tax, transit tax, forest many reforms in tax system are carried out in Nepal. Different types of tax laws such as customs, excises, income tax, sales tax/VAT, local tax and others are introduced and abolished.

Tax is a compulsory burden to the people who have taxable income. it is the major sources of government. In other words, tax is any compulsory levy from individuals, householders and firm to central or local government. The person or entity, who have taxable income is liable to pay tax without expecting any direct benefit from the government. Tax is computed and paid as per prescribed in the law.

In conclusion, it can be said that a tax is a liability to pay an amount to the state, which spent upon common interest of the people. Basically, the tax is collected from haves and spent for the interest of have-not in the society. It helps to bridge the gap between haves and have-not.

2.1.2 Tax Evasion

The term tax evasion denotes the meaning of illegal practices or avoidance of taxpaying liabilities intentionally by civil (people, organizations, corporations as well as community). That's why the tax evasion is the matter of substantially penalties or the punishment to those who made evasion of the tax liability and not bear their

contribution towards the society or nation. An asses guilty of tax evasion may be punished under the prevailing rules and regulation by the related country tax laws. Illegal strategies to avoid paying taxes are called Tax Evasion.

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

Tax Evasion may involve:

- ❖ Stating an untrue statement knowingly.
- ❖ Submitting misleading documents.
- ❖ Suppression of facts.
- ❖ Not maintaining proper accounts of incomes.
- ❖ Omission of material facts.
- ❖ Maintaining multiple sets of accounts.
- ❖ Operating business transactions under different names.
- ❖ Fragmentation of incomes.
- ❖ Over-reporting of expenses.
- ❖ Non-reporting or under-reporting of incomes, etc.

Source: Bhattarai, and Koirala, 2010.

Tax evasion is thus an illegal way of minimizing tax liability. It is an illegal practice under the prevailing Act. Tax evasion is a more serious problem in developing countries. There are three types of tax evasion in the economy. They are:

- ❖ Loss of revenue to the state.
- ❖ Redistribution of income which affects the efficiency of resource allocation in the economy.

- ❖ And creating wrong strategic leading to error in government.

Tax evasion can be several types:

- ❖ Unilateral
- ❖ Bilateral
- ❖ Multilateral

2.1.3 Tax Avoidance

Income Tax Act, 2058 has defined tax avoidance scheme as any arrangement, one of the main purpose of which is the avoidance or reduction of tax liability. For the purpose of determining tax liabilities, the Act has provided following rights to Inland Revenue Department (Sec 35):

- ❖ The Department may disregard an arrangements or part of an arrangement that is entered into or carried out as part of tax avoidance scheme.
- ❖ The Department may disregard an arrangements or part of an arrangement that does not have substantial economic effect.
- ❖ The Department may disregard an arrangements or part of an arrangement the form of which does not reflects its substance.

Tax avoidance is a device which technically satisfies the requirements of the law but in fact it is not in accordance with the legislative intent. Tax avoidance is an attempt to reduce incident of tax by taking advantage of certain loopholes in tax laws. Tax avoidance has been held to be illegal and it too could become illegal just as evasion. Tax avoidance is not dependable because as and when the loopholes in tax laws become public; the legislature steps in to plug them. Besides, it is also risk-bearing because sometimes the law may be amended with retrospective effect. If the time limit for reopening or rectification of completed assessment has not expired by that time they can be reopened or rectified creating additional liability for the taxpayer. Therefore, it is not advisable for a taxpayer to adopt tax avoidance as a device for tax planning. Tax avoidance is against the spirit of law.

Tax avoidance is the method of reducing tax liabilities by taking the benefits of provisions provided by the existing tax law of the country but not illegally, but is the way of unethical practice of minimizing tax liability. So, it is the saving of tax amounts without breaking the law. Hence, tax avoidance is done on full legal backing but it is against the spirit of the tax law. In other words, it is an exercise where a taxpayer tries to take advantage of loopholes of the laws and bypasses it. Without resorting to illegal ways, the taxpayer affects a reduction in tax liability.

In the context of Nepal, the Income Tax Act, 2058 has also made following provisions with a view to reducing tax avoidance:

- ❖ Quantification of amounts. (Sec 27)
- ❖ Inclusion of indirect payment. (Sec 29)
- ❖ Use of arms length price to avoid transfer pricing. (Sec 33)
- ❖ Provisions against splitting of income. (Sec 34)
- ❖ Provision of not allowing reducing dividend income. (Sec 58)
- ❖ Rights of tax authorities to have access to the information of the taxpayer. (Sec 82)

Thus, tax avoidance can be defined as any planning of tax which, though done strictly according to the legal requirements, defeats the basic spirit of the tax law. It is legally permissible but unethical.

2.1.4 Tax Delinquency

Tax is unpaid or remains unpaid as of or after the payment due date. Usually a penalty attaches to a delinquent tax. Any unpaid balance that may remain after a partial payment will still be considered delinquent. The penalty and the unpaid balance remain separately identifiable. The power, jurisdiction and authority to collect all delinquent taxes are vested in the state tax commission. An action to recover delinquent taxes is not an action upon a contract, obligation, or liability, not founded

upon an instrument in writing, but is one which arises upon a liability created by statute, other than a penalty or forfeiture.

Tax delinquency is also one of the ways to reducing tax liabilities. In this technique the liability is reduced in present value by different 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. It is a temporary deceiving of tax in the long-term. So tax delinquency in paying the taxes (Bhattarai, and Koirala, 2007).

2.1.5 Tax Planning

The function of taking benefits from the tax exemptions, deductions, concessions, rebate and relief permissible under the Act so that the incidence of tax is kept as possible as lowest point; simply define as the tax planning. Hence, tax planning implies compliance with taxing provisions in such a manner, all the benefits can be taken as far as possible. In other words, tax planning reduces the outflow of cash resources by way of taxes to the government so that the same may be effectively utilized by the assess for his benefit. It arranges the financial appears in such a way that, without attracting the penal provisions, full advantages is taken of all tax exemptions, deductions, concessions, rebates, allowances and other relief permissible under the Act so that incidence of tax is reduced to minimum.

Tax planning is neither 'Tax avoidance' nor 'Tax evasion'. Tax avoidance is a device which technically satisfies the requirement of the law but in fact it is not in accordance with the legislative intent. Tax avoidance is against the spirit of law but tax planning is accordance with law and it follows legislative intention and opinion to reduce the burden of tax liabilities. So, Tax planning is deferred from tax avoidance. It does not advise any taxpayer to adopt tax avoidance for reducing tax amount. Tax evasion is a device to evade or reduce tax liability by fraudulent means like suppression or omission of receipts, inflating expenses as well as claiming bogus losses or reduction in fictitious transaction. So, tax evasion is illegal, unethical and highly risky method to

reduce tax amount. That's why; tax planning also excludes tax evasion activities for minimizing tax liabilities.

Tax planning is defined as a scheme whereby the taxpayer makes use of all concessions available under tax law and pays the minimum possible tax. It implies full compliance of tax laws and meeting the tax obligations. The main focus is on taking full advantages of all the tax related exemptions, rebates, deductions and allowances to minimize the tax liability. It is legal, ethical and economic way of minimizing tax liability. It is a legitimate device of minimizing tax burden.

Thus, tax planning insures not only accrual of tax benefits within a four corners of law but it also insures that tax obligation is properly discharged to avoid penal provisions. Tax planning is a step to be followed by each and every taxpayer to minimize tax obligation so that, that individual becomes able to make effort towards making his profit maximum.

2.1.6 Tax Management

Managing a tax is not a simple task, but it is not only the function of reducing tax liabilities as well as avoidance of tax. So, the term tax management denotes the long term perspective functions of tax managers, which begins from the point of tax planning and includes all the aspects of it as well as implementation of such planning and tax administration. Hence, tax management is the efficient, systematic and timely handling of tax matters to save time talent treasure and avoidance of tension, worry, stringent penalty and prosecution. In other words, the process of maintaining of records and documents, filling of tax return in time and performing other tax related duties efficiently, can be defined as tax management. So that, it is not only the matter of taking advantage of various incentives provided by laws but also the process the making taxpaying mechanism, systematic, efficient as well as ethical as per need. It provides the knowledge about taking benefits of existing tax laws as well as savings from the penalties and fines through the effective and efficient tax planning and tax administration.

Tax management is the maintenance of records and documents, filing of tax returns in time and performing tax related duties efficiently. Tax management is an integral parts of tax planning. It takes necessary precautions to comply with the legal formalities to avail of the tax exemption/deductions, rebate or relief as are contemplated in a scheme of tax planning. Tax management plays a vital role in claiming allowances, deductions and tax exemptions. Under tax management, assesses is advised to take all such precautions as are necessary to claim and retain tax-benefits envisaged in a scheme of tax planning. Thus, tax management seeks to achieve and retain tax benefits envisaged in a scheme of tax planning by following attendant conditions, procedures, and rules provided in the statute.

Thus, study of tax planning is incomplete without tax management. Tax planning without the study of tax management is like knowing the medicine without knowing how to administer it.

2.1.7 Tax Planning vs. Tax Evasion

Tax planning and tax evasion are the ways of minimizing the tax liability. However, they are different on the following grounds:

- ❖ Tax planning is legal whereas tax evasion is illegal way of reducing tax liability.
- ❖ Tax planning is an ethical practice whereas tax evasion is an unethical practice.
- ❖ Tax law encourages tax planning but discourages tax evasion.
- ❖ Tax planning enhances healthy economy of a country whereas tax evasion creates unhealthy economy.
- ❖ Tax planning is future-oriented whereas tax evasion is related to past activity.

In a nutshell, tax planning and tax evasion both reduce tax liability. First one is done legally and ethically whereas the second one is done illegally and unethically. (Bhattarai and Koirala, 2010)

2.1.8 Tax Planning vs. Tax Avoidance

Tax planning and tax avoidance are the legal ways of reducing tax burden and both need expertise in the tax law. However, they are different on the following grounds.

- ❖ Tax planning is a genuine use of facilities provided in the tax laws whereas tax avoidance is taking advantages of the loopholes and lacunae in tax provisions.
- ❖ Tax planning is an ethical practice whereas tax avoidance is an unethical practice.
- ❖ Tax law encourages the practices of tax planning whereas it discourages tax avoidance.
- ❖ Tax planning does not violate the spirit of tax law whereas tax avoidance violates the spirit of the tax law.

In a nutshell, tax planning and tax avoidance both reduce tax liability through legal ways whereas the first one is ethical and the second one is unethical. (Bhattarai, and Koirala, 2010)

2.1.9 Tax Evasion vs. Tax Avoidance

Tax evasion and tax avoidance are same in the sense that both of these activities reduce tax liability by unethical means. However, they are different on the following grounds:

- ❖ Tax evasion is illegal whereas tax avoidance is done with legal backing.
- ❖ Tax evading practice is more common in developing countries whereas tax avoidance is popular in developed countries.
- ❖ Tax evasion may not need expertise whereas tax avoidance needs expertise.
- ❖ Tax evasion is subject to serve punishment as compared to tax avoidance.

In a nutshell, both tax avoidance and tax evasion both reduce tax liability by unethical means-former one is done legally whereas the latter is done illegally. (Bhattarai, and Koirala, 2010)

2.1.10 Methods of Tax Planning

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

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

The long range tax planning may not confer immediate tax benefits but it may be advantageous in long-run. For example, selection of nature of the products, selection of location, selection of sources of capital etc. (Lal B.B., 1996)

2.1.11 Scope of Tax Planning

We know that, there was great scope of tax planning in most of the countries of the world during 1950s to 1990s. Developed countries provided investment allowance and accelerated depreciation, where as developing countries provided tax holiday for the purpose of promoting the investment. After 1990s the trend of tax system reversed.

Now, there is fashion of reducing the tax facilities provided to the industrial sectors. "Low rate wide net" is the main slogan of the current taxation system. In the context of Nepal, in comparison with Income Tax Act, 1974, the current Income Tax Act, 2058 has been reforms of different taxes provisions, rules and regulation; the actions of the need of tax planning becomes more simplification rather than previous. It has elaborated and widens the area of tax. Thus, we can conclude the existing Income Tax Act, 2058 has been lower the scope of tax planning but not totally eliminated. Under Income Tax Act, 2058, tax planning can be divided into two heads.

- ❖ Strategic or long-term tax planning
- ❖ Operational or short-term tax planning

A. Strategic or Long-term Tax Planning

Strategic tax planning is normally for a longer period and it may not pay off immediately. Areas for strategic (or long term) tax planning may be as follows:

a. Nature of Business

A person considers various factors while selecting business. Out of them, tax related factor plays a vital role in the selection. Tax law has imposed different tax rates to different business activities. The person can minimize tax burden by choosing a business of low tax rate. For example as follows:

Table 2.1
Different Tax Rate in Different Types of Business

S.N	Features of Business	Application Tax Rate
1.	Business related in Agriculture(not registered)	Tax free
2.	Special industry	20%
3.	Business related to export and construction of infrastructure projects like construction of road, bridge, tunnel, rope way, sky bridge, electricity generating and transmission etc.	20%
4.	Business related to insurance, finance and banking sector, liquors and tobacco industries and petroleum industry	30%
5.	Other general business, except stated above	25%

Source: (ITA, 2058, Section 50)

b. Form of Organization

There are different forms of business organization- sole trading firm, partnership firm and company. Income Tax Act, 2058 has imposed different tax rates and has provided different business facilities to different forms of business organization. For example:

- ❖ A sole trading firm gets tax exemption and is taxed slightly lower than other firms of organization.
- ❖ Partnership firm and company do not get any exemption from taxable income.

c. Selection of Location

Basically, an industry is established where there are all the facilities of raw material, market, human resources, infrastructure and others etc are available. Although these considerations, when anybody going to operate a new business, to select the location the following provisions of Income Tax Act, 2058 also should be considered.

- ❖ A special industry operating in remote (highly undeveloped, undeveloped and underdeveloped) area is taxed at 50%, 70% and 75% of the applicable tax rate on its income respectively up to ten income years.
- ❖ There is provision of remote area allowance also to natural person according to Income Tax Act, 2058.

Table 2.2

Exemption for Remote Area:(Rule 38)

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

Source: (ITA, 2058 Section 38)

d. Selection of the Product

For the proper selection of the nature of the product, the investor should take care of benefits given by the government. The investor in hydropower generation, transmission or distribution and construction of infrastructures project should pay only 20% tax. Similarly, 30% tax for petroleum product. Industries related to tobacco and alcohol should pay tax at 25%. On the other hand, loss recovery period for BOT (built, operate and transfer) and BOOT (built, own, operate and transfer) project is 7 years

with carry forward provision, whereas business organization producing other products have the facilities of carry forward of loss for 4 years (ITA, 2058 Sec 20).

e. Selection of Sources of Capital

The required capital for a business can be obtained through issuing shares, debentures, borrowing loans or through retained earnings. In Nepal, the tax rates applicable to each of these sources of capital are different. Interest is taxed at 5% of loans is from natural person but dividend is taxed at 5% final withholding. In case of capital gain, tax rates is 10% for the gain on the disposal of non-business chargeable assets related to natural person where as the profit from disposal of other assets is taxed at normal rate of profit i.e. 20%, 30% and 25% respectively for industrial firms, financial firms and other respectively. Income tax Act, 2058 has made different provisions regarding the return of capital.

- ❖ Interest is fully deductible in case of borrowed funds whereas dividend is not deductible as an expense.
- ❖ Expenses incurred while borrowing loan is an allowed for deduction.
- ❖ Raising funds through ordinary/preference shares or retained earnings are without strings and do not involve regular outflow of cash by way of interest.

A taxpayer can minimize income tax liability by considering the above mentioned factors. (Bhattarai & Koirala, 2010)

f. Size of Business

Selection of suitable size of business can also help in tax planning. Some provisions of Income Tax Act, 2058 for size of business are mentioned below:

- ❖ If a taxpayer have annual turnover do not exceed Rs. 2, 00,000 and Rs. 20, 00,000 respectively and if they elect to apply this provisions for the year, they are imposed a fixed amount depending on the area where the business is conducted.

Metropolis or sub-metropolis	Rs. 5000/-
Municipalities	Rs. 2500/-
Other Places	Rs. 1500/-

- ❖ A special industry and an IT industry providing direct employment to 300 or more Nepalese citizens throughout the income year are taxed at 90% of the applicable tax rate on that year's income.
- ❖ A special industry providing direct employment to 1200 or more Nepalese citizens throughout the year is taxed at 80% of applicable tax rate on that year's income.
- ❖ A special industry providing direct employment more than 100 Nepalese citizens including at least 33% women, downtrodden (dalit), or the handicapped (apanga) throughout the year is taxed at 80% of applicable tax rate on that year's income.

Source: Bhattarai I. & Koirala G.P. (2010)

g. Merging of Business

Merging of a trading unit into a manufacturing unit may be helpful in minimizing income tax liability. A special industry (except liquors and tobacco) pays income tax at 20% whereas non-industrial units (i.e., trading company) pay income tax at 25%. Thus, merging of trading company into an industrial company may help reduce income tax liability.

B. Operational or Short-term Planning

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

a. Acquisition of Fixed Assets

Through the consideration of issue of cash outflow, depreciation, interest and lease rental, the leasing or buying of fixed assets should be done while leasing the Fixed Assets, the annual lease rental is fully deductible but while doing purchase of an assets depreciation as well as interest on loan is deductible under the act. So, all of these should be compared to get full advantage of existing income tax act.

b. Repair and improvement cost

Income Tax Act, 2058 (Sec 16), has allowed repair and improvement cost up to 7% of depreciation basis of the respective blocks of assets. The excess repairs can be capitalized and depreciated from the next income year in the respective block. Taxpayer should plan these expenses in such a manner that maximum deduction is possible.

c. Pollution Control Cost

Income Tax Act, 2058 (Sec 17), has allowed to deduct the expenses related to purchasing or installing of pollution control device. Under ITA, 2058 pollution control cost up to 50% of taxable business income is deductible. If cost becomes excess it can be capitalized for next year on the same block.

d. Research & Development Cost

As per ITA, 2058 (Sec 18), 50% of the adjusted taxable business income is allowed for deduction as R & D cost. Any excess/unallowable PCC and R & D cost due to limit also should be capitalized and depreciated under block D at the end of the year or beginning of the next year.

e. Donation

Donation given to an exempt organization, approved by Inland Revenue Department (IRD), is allowed for reductions from taxable income as per ITA, 2058 (Sec 12). For an individual or an entity will deduct not exceed Rs. 100000/- or 5% of adjusted taxable income. The government of Nepal may allow full or partial deduction of donation for the specific work for a specific year publishing notice on Nepal Gazette.

f. Loss Recovery

As per Income Tax Act, 2058 (Sec 20), loss from a business or investment can be carried forward up to next seven income years.

- ❖ Losses of the entity engaged in building public physical infrastructure own operate and transfer to the Nepal government (BOOT entity) can be carry forward up to next 12 years.
- ❖ Losses of the entity engaged in petroleum business under petroleum act 2040 can be carrying forward up to next 12 years.

g. Stock Valuation

As per Income Tax Act, 2058 (Sec 15), while doing stock valuation by the business organization, they have to adopt prime cost as the basis of stock value because business organizations are keeping their account own and accrual basis. If the cost of stock cannot be finding accurately either FIFO or Weighted Average Method also be adopted for valuation of stock by the taxpayer. Thus, while making tax planning stock should be valued at lower cost either on the market price or actual cost price.

2.1.12 Tax Planning for Various Types of Payment and Activities

I. Remuneration Payment

While doing the tax planning the taxpayer should look at that whatever is spent on employees is allowed to be deducted. Some of the avenues for tax planning from the point of view of employees' remuneration payment are as follows:

- ❖ If both husband and wife earn taxable income from employment, tax should be paid separates is beneficial by Rs. 120000/-. Because for single up to Rs. 160000/- is the matter of 1% tax and for couple the limit is up to Rs. 200000/-.
- ❖ Medical tax credit up to Rs. 750 for a resident individual is allowed to deduct from taxable income. So, it also should be considered separately.
- ❖ For accommodation & motor vehicle facility 2% & 0.5% of salary is taken as additional taxable income rather than all allowances amount consideration.
- ❖ An employee can reduce his taxable income up to Rs. 20000 in an income year for the investment (life) insurance premium paid.

- ❖ In case of retirement payments made by Government of Nepal and an approved retirement fund (Sec 65), 50% of total payment or Rs. 500000/- whichever is higher is tax free and balance is taxed at 5% as a final TDS.

Source: Bhattarai I. & Koirala G.P. (2010)

II. Self - Employment

Income Tax Act, 2058 has provided various facilities relating to an individual who is a self-employer can avail these facilities to save income tax. Following are some of the areas where self-employer can make tax planning.

a. Presumptive Taxation

Presumptive taxation is a system is of taxation under which income tax is levied on average income in place of actual income. The provisions of Income Tax Act, 2058 regarding presumptive taxation are as follows:

- ❖ If a taxpayer has income or annual turnover not exceeding Rs. 200000/- or Rs. 2000000/- respectively for a year, tax will be imposed to him depending upon the area where the business is located across the country Nepal as follows:

Metropolis or sub-metropolis	Rs. 5000/-
Municipalities	Rs. 2500/-
Other Places	Rs. 1500/-

- ❖ The pre-taxation for those individuals who earns from public transport is as follows:

Table 2.3

Tax Applicable Rate for Public Transport

Type of Vehicle	Annual tax per vehicle
Minibus, Minitruck, Truck, Bus	Rs. 1500/-
Car, Jeep, Van, Micro Bus	Rs. 1200/-
Three-wheeler, Auto rickshaw, Tempo	Rs. 850/-
Tractor and Power Tiller	Rs. 750/-

Source: (ITA, 2058)

Note: If the owner is an individual, the tax will be final.

b. Medical Tax Credit

A resident individual can claim a deduction from his taxable income a medical tax credit up to Rs. 750 per year for the approved medical expenses incurred for himself. So, it also should be considered separately.

c. Exemption Limit and Progressive Tax Rate

Income Tax Act has provided basic exemption of Rs. 160000/- and Rs. 200000/- to a resident individual and a couple having taxable income from sole trading business respectively. Further, a sole trader is taxed at progressive rate, which is lower than the corporate tax rate.

d. Retirement Contribution

A self employer can claim a reduction for the contributions made to an approved retirement fund from his assessable income an amount: Rs. 300000/- or 1/3rd of his assessable income whichever is lower.

e. Capital Structure

Capital structure is the combination of different sources of capital such as debt and equity. Regarding the capital structure of business firm the scope of tax planning will be deferred. For capital financing by debt, interest paid to loan is fully deductible from taxable income. For equity financing dividend is not allowed for deduction from business income. It is a matter of 5% final tax.

f. Location of Industrial Setup

Selection of location is an important decision to be made by a business firm before launching its activities. The provisions under the Income Tax Act, 2058 and Industrial Enterprise Act, 2049 as regards to location of industrial setup help in tax planning. ITA, 2058 has provided various concessions and exemptions mentioned below:

Table 2.4

Tax Rates in Case of Special Industries (Sole + Entity)

Conditions: (A)	Tax Rate / Entity (B)	Rebate on tax (C)	Net applicable tax rate (B – C)	Period
If operating in a highly undeveloped zone	@20%	50%	50% of B = @ 10%	1 st 10 years
If operating in an undeveloped zone	@20	30%	70% of B = @ 14%	1 st 10 years
If operating in an under developed zone	@20%	25%	75% of B = @ 15%	1 st 10 years
If operating in a special economic zone (verified by Nepal Govt.)	@20%	100%	Nil	1 st 10 years

Source: (ITA, 2058 Section 11)

g. Timing of Activities

Timing of activities refers to the planning for the future business activities for getting maximum benefits of tax as much as possible by availing various facilities provided by ITA, 2058 by saving tax amount of earlier years. While doing tax planning it is important to distinguish between past losses and projected losses. Some activities that are not directly tied-up with taxable income can be planned even in the year of projected loss. Pollution Control cost, R & D Cost and Donation are directly tied-up with taxable income. So they should be planned in the year of profit. However, other expenses can be planned in the year of projected losses.

h. Lease vs. Buy

Fixed assets can be acquired either through leasing or buying. Lease is a contract between a lesser and lessee for the hire of a specific asset. If the assets are leased, the taxpayer can claim for the rent and management fees and the taxpayer is allowed to deduct any cost paid by him for the operation of leased asset. If it is purchased, there is the facility of deduct depreciation & taxpayer can claim a deduction for interest expenses, if the asset is purchased by taking loan.

2.2 Tax Reform

2.2.1 Tax Reform in Developing Countries

The current situation and system of tax is not a readymade product. It has been reformed as well as amended various times according to the changes on the priority of the policy makers and government. With the beginning of the decade of 1970s, many developing countries had reform there tax system. On the context of this World Bank has study about the fruitfulness of these reforms for several years and to judge the goal of tax reform has been obtained or not as well as how developing countries can improve the performance of their tax systems. As the World Bank has become increasingly active in structural adjustment and other policy based leading developing countries, growing demands have been placed on it to suggest, and sometimes the experience of eight developing countries, that have undergone and in some reform, throughout the focus in a practical rather than theoretical aspects of tax reforms. Poorly designed or poorly functioning tax systems create variety of problems in developing countries. These are as follows:

- ❖ Inadequate provisions for equality.
- ❖ Tradeoffs and interactions in redesigning tax systems.
- ❖ Fiscal imbalances and insufficient tax revenue.
- ❖ Poor administration of taxes.

2.2.2 Constraints on Tax Reform

While tax reforms debates are frequently fueled by several normative criteria the actual reform measures that are adopted often reflects the existence of four binding constraints on the ability to choice new tax directions: political, international, technical and institutional. Political constraints come in variety of shapes. In most developing economies certain sectors and activities enjoy a privileged tax status from the political protection that is strong enough to resist any attempt at change.

2.2.3 Process of Tax Reform

Tax Reform should be done through the systematic and scientific process. While evaluating the existing tax laws and policies for reform purpose, there should be careful and becomes consciousness what will be the impact of new one. That's why, tax reform is not only the process of making new tax policies, it is also a process of adopting goodness of existing and correcting bad one. A successful tax reforms process need detail knowledge about the defects of current system, specially a sense of which tax pays at his industry, firm and household level, as well as a feeling for how the distribution of tax burden would be affected by alternative tax measures that attempt to improve matters. So, there is a need of evaluating the impacts both positive and negative of both existing and new one to different sectors i.e. to tax payers as well as to government means tax administrator. The function of tax reform should be applied for making simple, smooth and easily understandable policies, provisions regarding tax rules and regulations to the tax payers. So, it is the process of making simple provisions by erecting complex and multi-meaningful provisions of tax law. Reforms are also more likely to be successfully adopted if local policy makers are actively involved in their design and implementation and reform results in the certain of a care of local tax experts who identify with, and assume responsibility for the success of the reform. While successfully tax reforms always invest in better tax administration, in the end reformed measures must be compatible with existing tax administration capacities and tax planning.

2.3 Review of Related Studies

The meaning and zest of tax planning has been already been mentioned on different sections of this thesis as per the nature and its requirements. It is a weapon that helps to reduce the taxpayer's liabilities by proper use of different provisions made in Income Tax Acts, Laws and Rules. And the various tax experts and writers in their own ways have defined the same word "Tax Planning". Most of them agree to the taxpayer of what tax planning is but some of them extremely disagree. Some of their opinions have been presented here as they have written in their texts, journals and other articles.

2.3.1 Review of Journal and Articles

Many books, research reports and articles have been written and published in aspect of income taxation, very few and little portion of books of income tax have given space for the scope of tax planning as well as for research work about the practice of tax planning. But all the books of income tax have written little of more about tax planning. We can find many articles written about the tax management and their administration. Among them few are talking little about the tax planning and its scope on the basis of actual practice. Some of the articles and studies on taxation which are relevant to this research work are presented.

Tripathi, (2006) overviewed and explained the different aspect of income tax administration in his article. He further mentioned that, tax policy, tax law, tax objective or administration, organization, capable manpower, transparency, self assessment of income and its inspection, tax examination and research, up to date records of tax payers and the use of information technology, physical facilities etc are the different aspects of tax administration.

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

He further concludes that, although there is existence of some defects in modern tax administration, it is improving its way of functioning, and he is hopeful to see the well functioning tax administration in near future. That's why there is the scope of tax planning in the near future too. Because the improving tax administration will simplify the way of tax planning. It will also give the land for how the tax liabilities will be minimized ethically and legally under ITA provisions.

CPA Organization, (2009) explained about how the effective tax planning system can be achieved. As it is, 'Tax Planning should be done a few months in advance as it

gives ample time to understand and evaluate different options that are specific to financial situation.

Review of Tax Planning System (2009) mentioned above, it can be concluded as;

- ❖ Most tax planning products are part of a larger suite of products.
- ❖ Both federal and state tax planning options are available in most products.
- ❖ A customization capability in the product means the ability to offer more comprehensive service to clients.
- ❖ The relative value of a product is subjective; visit vendor websites and try out demos prior to purchase.

CPA Organization, (2010) stated various theoretical cases about the tax planning and its scope in the context of country, India. As it is, with a tight economy and creeping growth causing more and more Americans to be more miserly in their spending or to at least budget more stringently, they often overlook a potential for significant savings. You know that it can directly, and often dramatically, lead to decreased tax liabilities or better preparation for anticipated liabilities. Even more so, taxpayers in any bracket and complexity level are subject to the changes in their taxation brought about by life events. While few people would be likely to make a decision on one of these life changes based on the tax implications, they can greatly benefit from knowing how these events will affect credits, deductions, phase-outs and other factors. Tax planning system also offer advanced ratio analysis functions, quick access to multiple scenario comparisons, anticipated phase-out limits, options for inflation-pegged factors, state planning capabilities and other functions.

2.3.2 Review of Books

K.C., (2007) expressed theoretical framework and practical cases regarding tax laws and tax planning according to the existing tax law. So, into this book both theoretical as well as practical aspect of taxation has been included. It guides to the readers about the calculation of tax liabilities of different taxpayer; individuals or household, business or entity and the corporate firm. Similarly, the method of reducing tax burden

through the tax planning is also guided by it. It explicitly explains inclusion and exclusion from business and investment income, deduction allowed in calculation of taxable income basis timing and according issues and characterization of income. KC has recommended the following tax minimization strategies.

- ❖ Tax minimization strategies related to Income
- ❖ Tax minimization strategies related to Deductions
- ❖ Tax minimization strategies related to Tax Rates

Koirala & Bhattarai (2010) included detail theoretical knowledge about tax planning on their book "Taxation in Nepal with Tax laws & Tax Planning". In this creation the way of tax planning according to ITA, 2058 has been suggested for the purpose of limiting tax burden to the taxpayers. It encourages the readers to adopt the way of reducing tax cost with the help of tax planning. It gives the differences in between tax planning, tax evasion & tax avoidance. It also lights the areas for the scope of tax planning. As it, tax planning is avoiding tax by availing of the various reliefs & concessions available in the law. It focuses how tax planning is relevant in Nepal? Why tax planning is needed while selecting a business organization? People prefer the selection of a sole proprietorship firm instead of a partnership firm? Hence, tax planning is a scheme whereby the taxpayer makes use of all the concessions available in tax laws at a time. It says that; A successful tax planner should employ its expenditure scheme is such a way that both employer and employee would be benefited.

2.3.3 Review of Thesis and Dissertation

Karki, (2005) focused about the application of tax planning in Nepalese organizations. The objectives of this study are to study the concept of tax planning, to examine the applicability of tax planning in Nepal and to study the gap between theory and practice of tax planning in Nepal. The major findings of this study is that, there is no uniformity in the perception of tax planning definition, the entrepreneurs, managers, experts do believe in tax avoidance and evasion than tax planning, the banks or

financial institutions, hotels and airline companies evade their payable tax. Hence, the researcher concludes that the performance of tax planning depends on the skill, knowledge and experience of the manpower.

Bhandari, (2007) explained that contribution of income tax to the total revenue, tax revenue, direct tax and total GDP is in increasing trend. Its contribution was 9.91%, 12.67%, 67.37% and 0.93% respectively in the FY 2005/06 in Nepal relating to other developing countries like India, Sri Lanka and Pakistan.

Sharma, (2009) found that: There is increasing habit of tax evasion rather than doing effective tax planning. Due to the negligence and discrimination of tax administrators tax evasion behavior of tax payer is increasing day by day. The rules and regulations of tax administration vary systematic in theory but incomplete in practice. On the other hand, the act has provided many facilities for tax planning to avoid & unethical behavior of taxpayers. But the taxpayers feel the difficulty to complete the criteria of tax planning and choose the unethical & illegal way i.e. tax evasion. Hence, only the rules & policies could not be enough for the collection of the correct tax revenues by reducing tax evasion, tax avoidance. There should be the regular support and supervisions of the government so that any problem seen at the time of implementation of tax planning could be easily solved. As like this, by making monitoring activities more effective & efficient the punishments also should be charged to whom who breaks and avoid the law.

Shrestha, (2010) concluded that; Tax Planning is important for each and every taxpayer to reduce tax liability on the ethical and legal manner. He found that, in Nepal taxpayers adopt the way of tax evasion and tax avoidance rather than tax planning to reduce tax burden. Due to the lack of regular monitoring & supervision of tax administrators taxpayers are encouraged to adopt unethical way of deducting tax via, tax avoidance and tax evasion. Another weakness of tax administration is making only tax rules & regulations in theories rather than their implementation. There are also no strict penal provisions for those who do not follow the tax act. Thus, although

there is the legal & ethical way of reducing tax liability with the help of tax planning. By taking advantage of tax concessions, rebates, subsidies, allowances and different provisions of tax law, tax liability can be minimized. But taxpayers are ignored this fact and find that they are habituated to deduct tax from unethical & illegal way i.e. tax avoidance & tax evasion.

Bhusal, (2011) had made a research about the trends of income tax and its reform in the context of Nepal. The study concluded that income tax has average contribution of 20.86% of total tax revenue & 79.46% in direct tax revenue from 2000/01 to 2009/10. Among direct taxes, contribution of the income tax has the highest contribution. Income tax as a suitable means of rising government revenue and self assessment tax system is appropriate method of income tax collection. Similarly, due to the time to time reform in tax laws, the corruption in income tax administration can be decreased as well as efficiency and transparency can be improved. This study also finds that people are not well known about tax system of the country. So, tax awareness program is necessary for rising government revenue through eliminating of tax evasion and tax avoidance.

2.4 Research Gap

Some research of tax planning can be found but most of them have followed the same trend and presentation as previous thesis has been done. Some of them have been done on all the listed companies of Nepal. But there is no any thesis or the research work regarding those companies which are not listed at NEPSE. Similarly, there is only few research works have been done about the contribution of taxation by commercial banks to the government revenue collection. That's why; this research work has been trying to consider those sectors too with the few listed companies. It means the research will try to focus to all the sectors of economy except manufacturing companies. To represent the overall scope and practices of tax planning for the selected sectors of industry or individuals the current research work has been done. This research work tries to consider representative from the each section of the

economy as much as possible. Those sectors are: Trading companies, Banking & Financial institution, Production & Fertilization companies and Insurance companies.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter gives the theoretical foundation for data collection and analysis of the research study. It represents the highlight of research design, population, sample size, nature & sources of data, data collection techniques, and data analysis tools. It shows the framework of data collection and presentation and analysis. Research methodology has been used to fulfill the objectives of the study. Research methodology generalizes the way of solving the research problem is used for the achievement of the objectives of the study.

3.1 Research Design

Decisions regarding what, where, when, how much by what means concerning an inquiry or research study constitute a research design. "A research design is the arrangement of conditions for the collections and analysis of data in manner that aims to combine relevance to the research purpose with economy procedure" Kothari (1990).

The present study is based on descriptive and analytical research design. Research design is the specification method and procedure for acquiring the information needed. It deals with what information is to be collected from which source and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objective and economic procedures. To achieve the specific objective of the study, descriptive and analytical research has been carried out in terms of scope & practice of tax planning in Nepal. For an empirical investigation; an opinion of study has been conducted. Research design is overall framework for the achievements of the goals and objectives of the research. Thus, research methodology followed in the study can be termed as analytical as well as descriptive research design.

3.2 Population & Sample

This study is concerned with the prevailing problems in the tax planning that are to be corrected immediately in Nepal. Thus, information concerning tax planning as a whole is taken out for consideration to reflect the real phenomenon. The population of this study is related to the all industry and business sectors. For the research convenience the population is taken as those all industry which are listed into the NEPSE. That's why the population of this study includes companies which are listed and traded into NEPSE. However, it is a very difficult task to study about the universe. In the case of opinion survey about tax planning reform, the sample size determined to 40 companies out of the total population. This sample of 40 persons were selected through different groups of tax officer, tax lawyers, tax experts, tax administrators, tax planners and taxpayers.

Table 3.1
List of Sample Respondents

S.N.	Nature of Organization	Number of respondents
1.	Trading Companies	15
2.	Manufacturing Companies	15
3.	Commercial Banks	15
4.	Insurance Companies	15
	Total	60

Source: Field Survey 2012

3.3 Nature and Sources of Data

The data for the study depends upon the primary sources as well as secondary sources. To achieve the main objective of this study both primary as well as secondary sources of data and information have been collected. The collection has been done in accordance with the availability and usefulness of this study. The main sources of data are the observations, survey and brainstorming as well as Delphi technique. The researcher has used the different analytical tools as mentioned above by the using of

means of questionnaire, meeting, interview and the telephone interview as well. Besides this, other remaining tools and techniques are also be used as per the situation demand.

3.4 Data Collection Technique

A set of 15 questionnaires were developed and distributed to the selected 20 respondents companies. This is the sample population of the study. Distribution was done personally by the researcher through field visits rather than sending any means to get accurate and actual information in time. The questionnaires were administered by the dissertation guide in personal meeting and additional information was also collected from interview with the respondents. The secondary data also be used and it can be collected from books, dissertations, journals, articles, reports, websites and annual report of IRD, MoF etc.

3.5 Data Presentation & Analysis

The collected data and information from primary as well as secondary sources of tax planning have been processed for tabulation and analysis. The views of the respondents about the questions were presented in respective order, so that the analysis fully based on the respondents. The cumulative result of each question was described in the form of respondents' language. The main priority was given to the highest support and decision of the respondent. The supports of the respondents were collected in the numerical form as well as language form. According to the subject matter and requirements, the data were tabulated into separate tables and format. Then the simple statistical analysis such as average, simple percentage and ranked correlation were used.

3.6 Statistical Tools

For making analysis and interpretation of collection data from primary sources, the ranked tabulation and ranked correlation were used along with simple percentage as demanded by subject matters.

Rank correlation coefficient is the measurement of relationship between two variables with respect to their respective ranks; it measures the degree of relationship between the two casualty variables. The following formula is used to calculate ranked correlation coefficient.

$$r_s = 1 - \frac{\sum d^2}{n^3 - n}$$

Where,

r_s = Spearman's rank correlation coefficient

d = Differentiate of corresponding ranks i.e. ($d = R_1 - R_2$)

n = Number of pairs of observations

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This is the main chapter of any research work. In this data are collected and managed for research purpose. They are analyzed and interpreted with the help of appropriate tools and techniques as per research nature and need and as described into chapter third. The concern is given into presentation and analysis part in detail. As data presentation and analysis is crucial part of any research, purpose is to organize collected data to assure an easy and understandable presentation.

So, for each and every research work the important of this chapter is most. Because on the basis of this analysis made on chapter findings obtained. Based on those findings recommendations have been derived and future guidelines got. It is so obvious that the presentation of the data and its analysis help us to draw valid conclusion. So, this chapter is the main body of the study, which solves the research problem for obtaining the specific goals of the research. It deals with the data and information collected from the primary sources, i.e. questionnaires, and interview and Field study. It deals with the overall state of applicability of tax planning in Nepalese organization. It helps for summarizing the conclusion and findings for the research.

This chapter introduces the 25 sample units of private, public and government companies relating to various sectors like production and fertilization, commercial banks, trading companies and insurances companies about tax planning behavior.

4.1 Implementation Scenario of Tax Planning in Nepal

Income Tax Act, 2058, Income Tax Rules, 2059, Industrial Enterprises Act, 2049 and annual budgets indicate the provisions of tax planning It was implemented as the replacement or improvement of tax facilities provided by government to the profit motive organization.

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

4.2 Sample Analysis of Measurement

This measurement deals with the result obtained from various sector of the companies. It explains about the view and specific conclusion of the companies. The samples of 60 companies were observed with the help of questionnaire and personal interview for the following results.

4.2.1 Information About the Company

Among the 60 companies, there were 15 Commercial banks, 15 Manufacturing (Production and fertilization) companies, 15 Trading companies and 15 Insurances companies. Most of these companies located in Kathmandu valley and some companies which located at Pokhara have also included in the sample. Most of the companies are private and few public companies are also included. Tax planning is more concern to private and public companies because the government companies feel less responsibility about this matter.

4.2.2 Information about the Respondents

Out of these 60 respondents 15 from trading companies, 15 from manufacturing companies, 15 from commercial Banks and 15 from Insurance com. Most of them had at least three years of experience in related field study. They filled the questionnaires on personnel contact basis. Some of the questionnaires were filled using the local friends. Some respondents denied filling the questionnaires at first visit. However, the researcher became succeed to collect the questionnaire from all respondents listed as Sample Company with well response of them. The researcher contact and visited to promote some tax officer and could gather some relevance information per refining to tax planning.

4.3 Analysis of Questionnaire

In this section of the study the researcher has been conducted his efforts to make appraisal of the responses given by the respondents selected to complete this research work. So, here each question of the set questionnaire has been deal to make clear vision of respondents about the tax planning.

So, from the analysis of this questionnaire the researcher has been focused out the facts and information of scope and practice of tax planning by Nepalese taxpayers. Hence, the evaluation of tax planning for business organizations has been made with the help of questionnaire analysis. Those organizations are from each sector of manufacturing, services companies like, banking and finance, insurance companies and trading companies.

With the participation of 60 respondents from above sectors and some of experts from the academic area too as per need this analysis has been conducted. Thus, below into various sub-sections the details of questionnaire have been made.

4.3.1 Do you have the knowledge about the term tax planning?

To know the knowledge about the term tax planning, a question was asked. “Do you have the knowledge about the term tax planning?” this question has been asked to the selected respondents to overview the concept of Nepalese taxpayers about tax planning and its application too. In this question received responses from the various respondents have tabulated as below:

Table 4.1
Overview of Concept of Tax Planning

Options	Trd. Co.	Mfg .Co	Comm. Bank	Insur . Co.	Total no of Respondents	% of Respondents
Yes	7	5	8	7	27	45
No	3	4	3	2	12	20
Somehow	5	6	4	6	21	35

Total	15	15	15	15	60	100
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Source: Field Survey, 2013

The table 4.1 indicates that almost 50% the respondents had the knowledge about tax planning. Besides this commercial banking sectors and insurance companies have also found aware about this matter. But only 33% of the respondents of manufacturing sector found to have the concept of tax planning.

In total 45% respondents had the concept of tax planning and 35% having less knowledge of tax so they may chose the option somehow. In the contrast 20% respondents were aware about tax planning.

4.3.2 The term tax planning is taken as,

In this question there given the options about the meaning of tax planning and its use. Here, in this tax planning has defined as way of reducing tax, planning process of taxes, and way of discouraging unethical tax reduction. These available options of tax planning definition of respondents presented in the table 4.2 below.

Table 4.2
Meaning of tax planning

Options	Trd . Co.	Mfg. Co	Comm. Bank	Insur. Co.	No. of Respondents	% of Respondent
Tax planning is a way of reducing tax from any manner.	2	2	3	2	9	15
Planning about the taxes in proper way.	3	4	6	5	18	30
It is the medium of discouraging the way of reducing tax from unethical & illegal way.	6	7	6	8	27	45
If any	4	2	0	0	6	10
Total	15	15	15	15	60	100

the table 4.2 shows that, respondents taken the tax planning as the medium of discouraging the way of reducing tax from unethical and illegal process. Into this option 45% of respondents agreed. Besides this 30% respondents also defined the tax planning as the planning process about the taxes to manage it in proper way. But 15% of respondents assumed that the tax planning also can be defined as the way of reducing tax liability from any way and process either it is ethical or not.

4.3.3 Do you think that tax planning is done by all Nepalese taxpayers?

The question asked to the respondents "Do you think that tax planning is done by all Nepalese taxpayers"? The respondents have provided the following responses which have arranged and presented in the following table 4.3 below.

Table 4.3
Schedule of Tax Planning Practice

Options	Trd. Co.	Mfg. Co	Com. Bank	Insur. Co.	Respondents	% of Respondent
Yes, it is practiced by all taxpayers.	6	6	6	6	24	40
No, it has been ignored.	5	4	1	2	12	20
Only few taxpayers adopt tax planning.	4	5	8	7	24	40
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table indicates that the 40% of respondents have provided information that the Nepalese taxpayers which have full knowledge and some have partial part of knowledge about the tax planning and they are practicing. 40% of respondents expressed that Nepalese taxpayers are practicing the tax planning and few taxpayers only adopting it. On the other hand, 20% of respondents have denied this fact and expressed Nepalese taxpayers are ignoring tax planning and they are managing from on their ways.

4.3.4 Do you think that tax planning is used for reducing tax liability amount in case of Nepalese business environment?

The question asked to the selected respondents " *Do you think that tax planning is used for reducing tax liability amount in case of Nepalese business environment*"? This question respondents have provided the following responses which have arranged and presented in the following table 4.4 below.

Table 4.4
Application of Tax Planning in Nepalese Businesses

Options	Trd. Co.	Mfg. Co	Com. Bank	Insur. Co.	Total no of Respondents	% of Respondents
Yes	10	8	12	12	42	45
No	1	1	0	1	3	20
A little bit	4	6	3	2	15	35
Total	15	15	15	15	60	100

Source: Field Survey, 2013

As the table 4.4 shows that, 45% of respondents have agreed that tax planning has used by the business taxpayers to reduce the tax liability as much as possible.

On the other hand, 35% of respondents have tried to adopt it becoming to apply it due to lack of sufficient knowledge. But 20% of respondents have expressed that business persons are not being able to apply it. It means they are not adopting method tax planning to minimize tax liability or burden of business organization.

4.3.5 To what extent tax planning has been applied in your company?

The result of application of tax planning has been presented in the following table 4.5 on the basis of responses given by the selected respondents. This question wants to

know that tax planning has adopted by the taxpayers or not especially into the business organizations rather than individual taxpayers.

Table 4.5
Adoptation of Tax Planning

Options	Trd. Co.	Mfg. Co	Comm . Bank	Insur . Co.	Total no of Respondents	% of Respondents
Very little	10	12	5	3	30	50
Moderate	4	2	8	1	15	25
As possible	1	1	2	11	15	25
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table 4.5 shows that of total respondents (i.e. 60), 50% of them have applied tax planning very little because they do not have practical knowledge of tax planning and prefer to apply tax evasion. They viewed that they have to adjust their expenses systematically to reduce tax liability under tax planning. But such adjustments of expenses had to be made even for tax planning. But they claimed that they needed to pay money either expense like donation or as tax. From the above analysis, it is clear that the respondents do not know the true concept of tax planning. They have preferred tax avoidance to tax planning to reduce tax.

Similarly, 25% of the total respondents (i.e. 60) said that they applied tax planning in their company in an average. They claimed that they have not increased the expenses like donation, Pollution Control cost, Research and Development cost, Life Insurance, Medical expenses etc. as tax reducing device, rather they try to minimize their unnecessary expenses. They attempted to pay their tax payable to the government without cheating. They want to make healthy growth of economy and stability of economy by paying taxes without violating. Their attitude towards tax planning is

neither positive nor negative. But they use some of facilities provided by the tax law properly and effectively.

Similarly, 25% of the total respondents replied that they apply tax planning as much as possible. They claimed that tax planning is the facilities given to them by the government. So, they have taken the advantages of tax planning. They claimed that they usually assess their income/ profit with tax reducing tools. If such types of expenses like medical expenses, life insurance premium, research and development cost, pollution control cost, project planning, strategic planning and operational planning are helpful for reducing tax liabilities, they would utilized such expenses. They strongly believe that tax planning is very effective moral and legal way to minimize tax liability. So, the companies follow the tax planning as much as possible.

4.3.6 Which assessment do you use for submitting the tax liability?

The tools of assessment for submitting the tax liabilities have been presented in the following table 4.6. This question wants to know that what method of assessment of tax is adopted by the taxpayers.

Table 4.6
Tools of Assessment for Submitting Tax Liabilities

Options	Trd. Co.	Mfg. Co	Com. Bank	Insur. Co.	Respondent	% of Respondent
Self-assessment	15	15	15	15	60	100
Jeopardy assessment	0	0	0	0	0	0
Amended assessment	0	0	0	0	0	0
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table 4.6 shows that, 100% of the respondents accepted that they use self-assessment for submitting tax liabilities because Income Tax Act, 2058 has focused on the self assessment system. Self assessment done by the taxpayers at the time of submission for filling return of income.

Under Income tax act every assessment will be treated as self-assessment. They always use to submit their tax liabilities by taking advantages of concessions, rebates, reliefs, incentives and allowance provided by the tax law. These were the facilities they could follow under self-assessment. There are various levels of fine and penal for those violate the tax law.

So, they never take advantages of self-assessment. But none of the respondents said that they used jeopardy assessment for submitting the tax liabilities because this done under special circumstance according to Income Tax Act, 2058. They are:

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

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

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

4.3.7 Methods applying for reducing tax liability.

The ways of reducing tax liability have been presented in the following table 4.7.

Table 4.7
Strategies for Reducing Tax Liability

Strategies	Mfg. Co.	Trd. Co.	Com. Bank	Insur . Co.	Respondent	% of Respondent
By taking advantages of loopholes in tax law.	4	2	0	0	6	25
By availing tax concessions, incentives, allowances, rebates & relief by existing tax laws.	10	8	11	10	39	50
By over statement of expenses and understatement of income.	-	-	-	-	0	0
Using the methods prescribed by tax planning.	1	5	4	5	15	25
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table 4.7 shows that, 25% of the total respondents said that they reduced tax liabilities by taking advantages of both loopholes and facilities provided in the tax law. Loopholes are the weakness of the tax law which the government should avoid by proper tax administration. To take advantage of the loopholes in the tax are not illegal. So, the tax payers always try to do such work for reducing their tax burden. They used not only loopholes but also tax planning.

Indeed, they do not search only loopholes in the tax law but in some cases they get easily to take advantage of loopholes in the tax law. Most of the time, they use facilities provided by the tax law in their practical assessment purpose of the tax liability.

Similarly, 50% of the respondents accepted that they reduced their tax liabilities by availing tax concession, incentives, allowances, rebates and relief provided by existing tax law except two of them also added that they take advantage of loopholes in the tax law. They viewed that all the facilities are very much essential for the proper

utilization and mobilization of resources and development. They are very loyal for their duties and responsibilities towards the government.

In each step of their work, they consider the value and chances of concession, incentives, allowances, rebates and relief because these are very helpful for reducing their tax burden. They claimed that they don't search any weak points in the tax law to take advantages thing about evasion. They are always responsible for their long term duties. So, they accepted to avail tax concessions, allowances, rebates and relief for reducing their tax liabilities.

On the other hand, none of the respondents said that they reduced their tax liabilities by over statement of expenses and under statement of income. They said that such types of illegal and unethical work should not be accepted because they are responsible members for the government revenue. They should always pay their duties with fair statement by only taking advantages of tax planning facilities.

At last, 25% of the respondents said that they reduced their liability by using the methods prescribed by tax planning.

4.3.8 The Tax Exemption, Rebates, Deduction and Concession granted to the Company under the Existing Tax Law are an adequate or not.

The result of the tax exemption, rebates, deductions and concessions granted to the company presented in the following table 4.8:

Table 4.8
Evaluation of Incentives Provided by Tax Act

Alternative	Mfg. Co.	Trd. Co.	Comm. Bank	Insur . Co.	Total no. of Respondents	% of Respondents
Yes	11	11	10	7	39	65
No	2	1	4	8	15	25
No idea	2	3	1	0	6	10

Total	15	15	15	15	60	100
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Source: Field Survey, 2013

The table 4.8 reveals that, 65% of the total respondents accepted that the tax exemption rebates, deductions and concession granted to the company under the existing tax law are sufficient. They are able to reduce enough tax liabilities with the help of tax planning by using exemptions, deductions, rebates and concessions of existing tax law.

All facilities provided by existing law are satisfactory but it is very vast in language and difficult to understand. There is a lot of confusion in some section and sub-section of the Act. They always claim about their facilities provided by the act in different ways of project planning, operational planning and strategic planning. Those facilities have made them successful in every step of their business law.

Opposing to this 25% of the total respondents said that the tax exemptions, rebates, and concession granted to the company under the existing tax law are not sufficient because the amount of rebates, concessions etc. should be given in descending order according to time period.

The newly established company should face various problems in strategic planning, project planning and operational planning. So, they must be provided maximum incentives, rebates, and concessions etc. in the beginning and reducing in the years to come.

In addition, they said that only such types of facilities cannot play great role in the progress of the company they need security, moral support, technical support, financial support, feasibility development etc, by the government. They claimed that the government in Nepal has made systematic policy and laws the aristocratically but the practical is more difference.

So, such types of supportive activities should be maintained to make such exemption, supportive activities should be maintained to make such exemption, rebates, deductions and concessions sufficient. They also suggested that the amount of rebate, deduction, exemption and concession should be increased.

Similarly the period of carry forward should be extended. One respondent also added that the facilities of carry back ward to all the organization should be equally provided.

In the same way, 10% of the total respondents responded that they are unknown about tax exemption rebates, deductions and concessions provided in existing tax law. They are using some facilities but have no ideas to analyses. Whether these facilities or not. They are using some facilities for reducing their tax liabilities but they cannot decide that these facilities are sufficient or not.

4.3.9 Misuse of Tax Planning as Tax Evasion and Tax Avoidance

The result of misuse of tax planning as tax evasion and tax avoidance in Nepal has been presented in the following table 4.9:

Table 4.9
Use of Tax Planning for Tax Evasion and Avoidance

Alternatives	Trd. Co.	Mfg .Co	Com. Bank	Insur. Co.	Total no of Respondents	% of Respondent
Yes	5	6	5	5	21	35
No	8	6	9	7	30	50
No idea	2	3	1	3	9	15
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table 4.9 shows that, 35% of the total respondents said that tax planning has been misused as tax evasion and tax avoidance in Nepal. There is weak tax administration in Nepal, so that tax payer can easily take advantages of the government. Most of the tax payers always show either nil tax liability or less tax liability. There is not deep investigation about tax liability. As a result, they think about tax avoidance and tax evasion.

On other hand, Income Tax Act has encouraged self assessment so that they can take their real liabilities easily for less tax statement. They also complained that the facilities of tax planning have to be increased with moral support of the government. Similarly, only self assessment should not be accepted for tax assessment. These should be regular investigation on every self assessment.

On the other hand, 50% of the total respondents responded that tax planning has not been misused as tax evasion and tax avoidance in Nepal. Tax evasion and tax avoidance also reduced the tax liability but these are different from tax planning. Rare tax payers follow tax evasion because of no provision for heavy punishment in Income Tax Act, 2058. This process naturally encourages themselves for tax evasion.

Therefore, to overcome the problem of the avoidance, the government has to pay attention on the tax avoidance and improve the paying behavior of people. It is found that, tax avoidance and tax planning have applied together by some companies. They claimed that both are legal. Because of unclear concept idea advantages of the loopholes and tax planning for reducing tax liability.

However, 15% of the total respondents answered that they have no idea and experience about tax planning misused as tax evasion and avoidance in Nepal. They never attempted to analyze any other organization about the ways for fraud and errors. They claimed that they are always responsible for their duties and they are paying tax regularly to the government. They never try to apply tax evasion and avoidance

because they do the business for long – term. The facilities provided by law should be utilized because it is the authority for every organization.

4.3.10 Do you agree with the following?

Some of the questions have maintained into questionnaire distributed to view that how much they agreed with the statement those are included in questionnaires. Their views presented below.

a) Does your company deduct tax at source?

This question asked to just evaluate that how the taxation system has applied by the Nepalese taxpayers. Those views which expressed by the selected respondents into question whether their companies are deducting tax at source or not presented in the following table 4.10 below.

Table 4.10
Deduction of Tax at Source

Alternatives	Trd. Co.	Mfg. Co	Comm. Bank	Insur. Co.	Total no of Respondents	% of Respondents
Yes	8	10	15	15	48	80
No	7	5	0	0	12	20
Total	15	15	15	15	60	100

Source: Field Survey, 2013

As the table 4.10 shows above most of the business and organization which are within the span of taxation are deducting tax at the sources as much as possible. As the views expressed by the selected respondents by the researcher 80% have viewed that they are deducting tax at the sources while conducting business transactions which are under the tax boundary.

On the other hand, the opposite views expressed by the 20% respondents. They are not deducting the tax liability while making the payments.

b) Does your company maintain proper books of account?

To view about the accounting system and maintenance of account in the Nepalese organizations the question, *does your company maintain proper books of account*, has been asked to the respondents. The views of respondents presented in the following table 4.11 below.

Table 4.11
Maintenance of Proper Books of Account

Alternatives	Trd. Co.	Mfg. Co	Comm. Bank	Insur . Co.	Total No. of Respondent	% of Respondent
Yes	15	15	15	15	60	100
No	0	0	0	0	0	0
Total	15	15	15	15	60	100

Source: Field Survey, 2013

According to the table 4.11 all the selected respondents agreed that all their companies and organizations are maintaining proper books of saccounting as per the act has provisions. So, all respondents i.e. 100% said that they are having practice of maintaining record keeping of accounting with the application of proper books of account as per the nature and need of business activities. That’s why; there is no one who is not maintaining accounts of their economic activities and records.

c) Whether your company is regular in filing income tax return in time?

How much the business organizations honest and obligated to the tax payment to nation this question. Question and the information provided by the respondents have presented in the following table 4.12.

Table 4.12
Filing of Income Tax Return

Alternatives	Trd. Co.	Mfg. Co	Comm. Bank	Insur . Co.	Total no of Respondents	% of Respondent
Yes	15	15	15	15	60	100

No	0	0	0	0	0	0
Total	15	15	15	15	60	100

Source: Field Survey, 2013

According to the table 4.12 all the selected respondents replied that all their companies and organizations are filling their income tax return in the proper time as per the act has provisions.

So, all respondents i.e. 100% said that they have practice of making payment of tax liability on the basis of their income generation as per books of account and tax provisions of income tax act as per the nature and need of business activities. That's why, there is no one who is not making tax liability payment to the nation of their economic activities and business transactions as the act determined.

d) Whether the provisions relating to penalties and prosecutions are adequate?

The question, “*Whether the provisions relating to penalties and prosecutions are adequate?*” is asked to the respondents to view about the provisions of income tax act for the penalties and prosecutions needed to punished those who adopts tax evasion and tax delinquency to reduce tax liability as well as who violates tax rules and regulations. The table 4.13 has shown the views of respondents about this matter below.

Table 4.13

Attitudes towards Penalties and Prosecutions

Alternatives	Trd. Co.	Mfg. Co	Com. Bank	Insur. Co.	No. of Respondents	% of Respondent
Yes	12	11	7	9	39	65
No	3	4	8	6	21	35
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table 4.13 presents responses of selected respondents about attitudes of them towards provisions relating to penalties and prosecutions of taxes are adequate or not according to the tax act.

This question is asked to view that the prevailing income tax act's provisions to penalties for violating tax rules and regulations. As the responses given by them 65% of respondents agreed that the present tax provisions for penalties are adequate.

Due to the tax behavior of taxpayers to tax liability they said like that because all taxpayers wanted to minimize their tax liability. But in contrast 35% respondents said that there is some modification and some needs of adjustment are to be added to the present income tax act and its rules and regulations.

Hence, these responses indicated that the tax act needed of appraising and should be made more effective to the implementation rather than adding priority to new provisions.

4.3.11 The Period of 10 years Tax Rebate is Sufficient or not to the Scope of Tax Planning in Nepal

The question, "*Does the tax rebates for ten years provided by law is sufficient or not to the scope of tax planning in Nepal*"? asked to the selected respondents. The views of respondents about result of the period of 10 years tax rebate is sufficient to increase the scope of tax planning in Nepal has presented in the following table:

Table 4.14
The Evaluation Scope of Tax Planning in Nepal

Alternatives	Mfg. Co.	Trd. Co.	Comm. Bank	Insur. Co.	Total no. of Respondents	% of Respondents
Yes	12	13	11	9	45	75
No	3	2	4	6	15	25
Total	15	15	15	15	60	100

Source: Field Survey, 2013

The table 4.14 reveals that of the total respondents, 75% of them accepted that the period of 10 years tax rebate has sufficient to the scope of tax planning in Nepal. It was a very good chance for the businessman to improve the industrial sector. Another part of that rebates were, the government provided to his facilities for special industry only.

These industries directly connected with the whole economic system of the country. They help to increase the employment, technology and decentralization of the industries.

These are highly undeveloped zone, undeveloped zone, underdeveloped zone, special economic zone, remote zone, IT Park and providing direct employment to 600 or more Nepalese citizen's through-out the whole years.

Another facilities provided by government is depreciation facilities for the special industries (entity only). They can deduct 1/3 more depreciation other than above features of industries. They agreed with the government policy. They said that 10 years time is more sufficient to increase the habit of tax planning in Nepal. In 10 years most of the industries should be earned profit from the industries. They could be done tax planning very efficiently.

Another part of the study, 25% of the total respondents said that they were not satisfied the rebate system of the government. It is not only dedication of the government but also causes of increase the tax evasion and tax avoidance.

If, the government wants to improve the tax planning system in Nepal, it should change the provisions immediately. The inaccuracy of the system of tax planning that should be needed immediately change as follows:

- ❖ Time duration of tax rebates.
- ❖ Area of tax free

- ❖ Rate of tax
- ❖ Transparency etc.

4.3.12 Avoidance of Tax Evasion and Tax Avoidance Behavior of Nepalese Tax Payers

For the simplicity, the sample listed company divided into two viz. public and private company. Executives were asked to ranked these five factors of location in order of their priority i.e. 1 to 5 if an executive wanted to give top priority to infrastructure facilities, this factor was given rank 1, and as much the least important factor was given ranked 5. This has been done separately for public and private organization.

The methods of avoidance income tax evasion and overall ranking of public and private organizations' respondents have been presented in the following table:

Table 4.15
Avoidance of Tax Evasion and Avoidance Behavior

Ways of avoiding income tax evasion and tax avoidance	Rank by public co. Respondents (R ₁)	Rank by private co. Respondents (R ₂)	d= R ₁ -R ₂	d ²
Educating tax payers by training	5	2	3	9
Simplifying tax laws in terms of language section, sub-section etc.	3	3	0	0
Timely assessment of taxes	2	4	-2	4
Incentives to regular tax payers	1	1	0	0
Effective implementation of fines and penalties	4	5	-1	1
Total			∑d=0	∑d ² =14

Source: Field Survey, 2013

Firstly, respondents of public organizations gave priority to incentives to regular tax payers. They told that evasion and avoidance behavior of Nepalese tax payers be avoided by giving incentives to regular tax payers. So, they will be very happy to submit their liability in time. If the government increase more facilities to tax payers then the application of tax planning can be used broadly i.e. tax payer may avoid the tax evasion and tax avoidance.

Secondly, the respondents of public companies responded that tax evasion and tax avoidance behavior of Nepalese tax payers can be avoided by timely assessment of taxes. They said that tax evasion behavior of Nepalese tax payers can be avoided by timely assessment of tax. They mean to say that there must be proper evaluation about self-assessment. Such types of observation warn the tax payers to submit the correct the tax liability in a prescribed time limit.

Thirdly, they told that tax evasion behavior of Nepalese tax payers can be avoided by simplifying tax laws in terms of language, section and sub-section etc. It is very hard to understand and interpret the Income Tax Act because of vast language, dual section and sub-section etc. So, they agreed that use of tax evasion and tax avoidance can be reduced if tax law is simplifying in terms of language, section and sub-section etc.

Fourthly, they told that tax evasion and tax avoidance behavior of Nepalese tax payers can be avoided by fine and penalties in some extent. Fine and penalties warn those who use to reduce tax liability in illegal way. They view for charging fines and penalties to avoidance income tax evasion and tax avoidance in Nepal. Otherwise, the behavior of tax evasion and avoidance can not be stopped.

Fifthly, they told that tax evasion and tax avoidance behavior of Nepalese tax payer can be avoided by providing training to tax payers. They said that most of tax payers are not qualified about the systematic use of tax facilities provided by tax law. Training can be clear to them about tax confusion.

In converse to this, private organization' respondents gave first priority to incentives. They said that tax evasion and avoidance behavior of Nepalese tax payers could be avoided by giving incentives to the regular tax payer. The incentives play a vital role to use application of tax planning for all organizations.

If the tax payers have satisfied with the facilities provided by Act and the facilities help to reduce enough tax liabilities, then the use of tax evasion and avoidance will be decreased. Incentives encourage them to accept the tax law and submit their correct tax liabilities.

Secondly, the private organization' respondents gave priority to provide training for all tax payers to avoid tax evasion and tax avoidance in Nepal. They said that most of the tax payers are unknown about tax planning, practice, method and system of tax planning etc. Therefore; they try to use tax evasion and avoidance to minimize their tax burden. Only the format and books of tax statement provide by Inland Revenue Department can not be enough for minimizing tax liability by using facilities of tax law in tax planning. Thirdly, they gave priority to simplify tax laws in terms of language, section, sub-section, reference etc. Moreover, every section has been explained by the reference of another section which is difficult to link each other.

Fourthly, they suggested for the timely assessment of taxes to avoid tax evasion and tax avoidance behavior. They submit correct or artificial statement of income which must be observed time to time. Such types of timely assessment behavior may avoid tax evasion behavior in some extent. Fifthly, they have supported fines and penalties system. But, they view that fines and penalties should be last instruments to avoid tax evasion and avoidance. They view that showing tax liability should be maintained by self-discipline. Indeed, they gave least priority to fines and penalties.

Rank correlation coefficient between private and government organization' respondents relative importance of avoiding tax evasion and tax avoidance behavior in Nepalese taxpayers.

We know,

$$\sum d^2 = 14$$
$$n = 5$$

$$\begin{aligned} \text{Spearman's rank correlation coefficient (rs)} &= 1 - \frac{6 \sum d^2}{n^3 - n} \\ &= 1 - \frac{6 \times 14}{5^3 - 5} \\ &= 0.3 \end{aligned}$$

Spearman's rank correlation coefficient (rs) = 0.3

Tax evasion and tax avoidance are important tool which helps to decrease tax liability illegal and unethically. It helps to decrease the government revenue.

So, it must be controlled by tax office. The important tools and instruments to control tax evasion and avoidance are five which have presented in the table 4.15. These are collectively believed help to control tax evasion and avoidance. The public and private organizations' respondents ranked them separately which presented in table 4.15.

The rank correlation coefficient between public and private organizations' respondents is positively correlated to each other i.e. 0.3, it implies that the attitude towards controlling tax evasion and tax avoidance behavior in Nepalese organization is generally difference between public and private organizations.

The tools is different the important view as assigned by the public and private organizations' for avoiding income tax evasion and avoidance in table 4.15. Public organizations' focus on incentives and timely assessment where as private organization focus on incentives and training.

4.3.13 Attitude towards difficulties and complexities in tax planning after implementing Income Tax Act, 2058

To know the view of respondents towards the difficulties and complexities faced by respondents after its implementation, a question was asked “Do you think that

implementing ITA, 2058 has created difficulties and complexities in tax planning?”
The responses received from the various respondents tabulated as below:

Table 4.16

Attitude towards Difficulties and Complexities in Tax Planning

Alternatives	Mfg. Co.	Trd. Co.	Comm. Bank	Insur. Co.	Total no. of Respondents	% of Respondents
Yes	8	7	12	9	36	60
No	7	8	3	6	24	40
Total	15	15	15	15	60	100

Source: Field Survey, 2013

From the above table it is observed that the majority of respondents (60%) felt that introduction of ITA, 2058 has really created difficulties and complexities whereas 40% of the respondents have said that there is no complexities and difficulties brought by the current Income Tax Act, 2058. It has been concluded that majority of respondents have facing difficulties after implementation of ITA, 2058.

4.3.14 Attitude towards “Healthy growth of economy through Tax Planning”

When a question was asked to the respondents regarding their opinion about healthy growth of economy through tax planning, they answered through three options which presented below in the following table 4.17.

Table 4.17

Growth of Economy through Tax Planning

Alternatives	Mfg. Co.	Trd. Co.	Comm. Bank	Insur. Co.	Total no. of Respondents	% of Respondents
It is possible	14	13	15	15	57	95
It is impossible	0	0	0	0	0	0
It can help to some extent	1	2	0	0	3	5
Total	15	15	15	15	60	100

Source: Field Survey, 2013

95% of the total respondents said that Healthy growth of economy is possible through tax planning. It means that the respondents are very sure of the phrase “Healthy growth of economy through tax planning”.

The tax laws grant various concession and reliefs to uplift the backward sectors of the economy. As a result, the economy of the country will bust up.

Some one is for tax planning; at least some planning has been done which will obviously going to help the country to grow economically healthy. If there will be no tax planning then there will be nothing but yet tax planning has been done and that is helping at least to some extent in the healthy growth of the economy of the country.

4.3.15 Attitude towards Problems in tax Planning Practiced in Nepal

When a question was asked to the respondents whether they think that there are problems in tax planning practiced in Nepal then they answered on given three options in the following ways:

Table 4.18
Problems in Tax Planning Practices

Alternatives	Mfg. Co.	Trd. Co.	Comm. Bank	Insur. Co.	Total no. of Respondents	% of Respondents
Yes, a lot	5	7	1	2	15	25
No, there is not	0	0	0	0	0	0
Need to change policies a little	10	8	14	13	45	75
Total	15	15	15	15	60	100

Source: Field Survey, 2013

25% of the respondents replied that Yes there are a lot of problems in tax planning practiced in Nepal. They said that no one knows what is tax planning, how it has been done and all they are only paying tax in different ways.

Some of them are paying tax through legal ways only, some are through illegal ways and some of them uses the both ways being little bit concerns towards the tax.

Nobody has even interested to know about tax planning going through in the country they said that who is going to study all those and who is going to appoint a separate staff for that tax policy, as the rebate we get will be less than the salary of the staff appointed.

Hence, conclusion is that the awareness of the people has to be enhanced in order to solve the problems in tax planning practice in Nepal.

75% of the respondents said that the policies need to be changed/revived a little to make the planning problem less. This is pointing towards those group of respondent who do take care of the subject tax planning in their business as a result they pointed out that it need to be revived to solve the remaining problems.

They also said that there are problems in tax planning but they not only said that there are problems but also added that it will be all right and will be free from the problem to some extent.

4.3.16 Attitude towards What Step Should Be Taken to Improve Tax Collection & Tax Planning System?

To find the conclusion of the above problem regarding the steps that should be taken to improve tax collection and tax planning system, the following result has been obtained.

Table 4.19
Attitude towards Improvement on Tax Collection & Tax Planning System

Options	Respondents	Rank	%
Setting & Monitoring tax collections targets	4	5	6.67
Making taxpayer aware for their rights, obligations	1	7	1.67
Sending regular reminder notice to taxpayers	2	6	3.33
Conductive tax education program	21	1	35
Adopting reasonable tax rates	2	6	3.33
Establishing effective MIS to monitor operations	15	2	25
Providing more incentives, recognition and supports	9	3	15
Simplifying tax laws in terms of language section, sub-section etc.	6	4	10
Total	60		100

Source: Field Survey, 2013

As per the responses given by the selected respondents about the need of corrective actions to tax planning system of Nepal the need of conductive tax education programs to the taxpayers as well as other is mainly felt by most of respondents.

Then they give priority to the option of establishing the management information system into tax administration to make the tax payment procedure easier, efficient, understandable and faster too. These options determined by 35 respondents and 25 respondents respectively.

Similarly, 15 respondents among all selected respondents are also viewing that additional incentives and facilities to the taxpayers and business organizations as per the situational analysis needed to the existing tax act and laws.

On the other hand, need of simplification of tax laws in terms of language section, sub-section etc. has also realized by selected respondents as the need actions should be taken by the tax administration to make tax payment and tax planning of Nepalese taxpayers effective and efficient.

Similarly, setting and conducting regular monitoring tax collections targets are also another step to be taken by Nepalese tax administration. Making taxpayer aware for their rights, obligations and sending regular reminder notice to taxpayers are also more actions that can be applied by tax administration for betterment.

4.4 Major Findings

This study conducted by the researcher on the subject to practice and scope of tax planning has been found the following findings as the results of study.

- Most of the Nepalese taxpayers are ignoring the application of tax planning in real sense of its uses. They only use it for the reduction of tax burden anyhow and any costs from any way of conduction.
- Tax evasion and tax delinquency are the major problems of Nepalese tax administration into the function performing tax management.
- Nepalese taxpayers are adopting tax evasions and tax delinquency as the tools of reducing volume of tax amount. Besides this they are also just started to use tax planning system to manage tax liability.
- Most of the taxpayers are thinking that tax liability is the burden to them composed by the government of Nepal. So, they are always making efforts to reduce it.
- Introduction of ITA, 2058 has really created difficulties and complexities whereas 40% of the respondents have said that there are no complexities and difficulties brought by the current Income Tax Act, 2058.
- Public organizations' focus on incentives and timely assessment of tax where as private organization focus on incentives and training.
- Tax evasion behavior of Nepalese tax payers can be avoided by simplifying tax laws in terms of language, section and sub-section etc. It is very hard to understand and interpret the Income Tax Act because of vast language, dual section and sub-section etc.
- Due to the tax behavior of taxpayers to tax liability they are saying like that because all taxpayers want to minimize their tax liability.

- Most of the tax payers always show either nil tax liability or less tax liability. There is not deep investigation about tax liability. As a result, they think about tax avoidance and tax evasion. On other hand, the Tax Act has encouraged self assessment so that they can take their real liabilities easily for less tax statement.
- Loopholes are the weakness of the tax law which the government should avoid by proper tax administration. To take advantage of the loopholes in the tax are not illegal. So, the tax payers always try to do such work for reducing their tax burden.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

It is the last chapter for any research work. In this chapter basically overview of the whole study has been mentioned in brief with the possible suggestions and recommendations if the researcher feels needed. So, this chapter is mainly classified into three different sections. The first section is summary which deals in short about the whole research work conducted and mentioned into previous three chapters. Similarly, the second one is conclusions which consists all those matters of analysis and findings from the research work completed. At last the final section is recommendations. It included all those suggestions and advices that are given by the researcher about the research. Recommendations are presented as the feedback to the related sector of research. Thus, in this way formally the research work is completed after the completions of this section with possible suggestions and feedbacks.

Summary

Tax planning is a process of taking maximum advantages and benefits from the facilities guaranteed in Income Tax Act. Tax planning is related to future activity of business organization. It is a technique of enjoying full benefits from all concessions, rebates and holidays provided by the government under the tax laws. It is a system of paying the minimum possible tax by the taxpayer.

The objective of tax planning are reduction of tax liability, minimization of litigation, making productive investment, promoting healthy growth of economy and economic stability in country. Tax planning entails changing structure of a business, project planning and planning day-to-day activities of a business organization.

Businesspersons use tax planning because it has a great importance in business organization. It helps in saving tax of a business that in turn enhances the profitability. In other words, it is the process of increasing the net worth of a business organization.

Moreover, tax planning helps in avoiding unnecessary worries, tensions and administrative hassles.

It is a proper, safe, scientific, moral, legal and long-term device to maximize the after-tax profit by minimizing the tax liability of a taxpayer. It helps in exploiting all facilities allowed by the Income Tax Act.

The main objective of the present research is to examine the present scope & practice of tax planning tools in Nepal, to identify the areas where the tax planning tools can be applied to strengthen the companies and the ways and causes of tax evasion in Nepal. In addition, to find out the gap between concept and practice of tax planning in Nepal is also another main objective of the study.

There is weak tax administration in Nepal, so that tax payer can easily take advantages of the government. Most of the tax payers always show either nil tax liability or less tax liability. There is not deep investigation about tax liability. As a result, they think about tax avoidance and tax evasion. On other hand, the Tax Act has encouraged self assessment so that they can take their real liabilities easily for less tax statement. They also complained that the facilities of tax planning have to be increased with moral support of the government.

Similarly, only self assessment should not be accepted for tax assessment. These should be regular investigation on every self assessment. On the other hand 50% of the total respondents responded that tax planning is not being misused as tax evasion and tax avoidance in Nepal. Tax evasion and tax avoidance also reduced the tax liability but these are different from tax planning. Rare tax payers follow tax evasion because of no provision for heavy punishment in Income Tax Act, 2058. This process naturally encourages themselves for tax evasion. Therefore, to overcome the problem of the avoidance, the government has to pay due attention on the tax avoidance and improve the paying behavior of people. It is found that, tax avoidance and tax planning are applied together by some companies. They claimed that both are legal.

Because of unclear concept idea advantages of the loopholes and tax planning for reducing tax liability. However, 15% of the total respondents answered that they have no idea and experience about tax planning being misused as tax evasion and avoidance in Nepal. They never attempted to analyze any other organization about the ways for fraud and errors. They claimed that they are always responsible for their duties and they are paying tax regularly to the government. They never try to apply tax evasion and avoidance because they do the business for long – term. The facilities provided by law should be utilized because it is the authority for every organization.

There is the need of taking corrective actions to tax planning system of Nepal. The need of conductive tax education programs to the taxpayers as well as others is main action that the firstly has to do. Then priority should be given to the option of establishing the management information system into tax administration to make the tax payment procedure easier, efficient, understandable and faster too. Similarly, additional incentives and facilities to the taxpayers and business organizations as per the situational analysis are need to the existing tax act and laws.

On the other hand, need of simplification of tax laws in terms of language section, sub-section etc. are also realized by selected respondents as the need actions should be taken by the tax administration to make tax payment and tax planning of Nepalese taxpayers effective and efficient. Similarly, setting and conducting regular monitoring tax collections targets are also another step to be taken by Nepalese tax administration. Making taxpayer aware for their rights, obligations and sending regular reminder notice to taxpayers are also more actions that can be applied by tax administration for betterment.

Conclusions

This study has been conducted on Scope and Practices of Tax Planning in Nepal. The topic is mainly focus on the tax planning process, its scope and its practice on real business environment. So to know the detail about the topic we have to familiar about the term tax planning. This phrase tax planning consists of two terms, one is tax and another is planning. The term tax is related with the revenue collection of government

as well as cost for services provided by government to business entity as well as household. There is only two things truth on this world; the first one is death and the second one is tax. That's why; the tax is compulsion to every citizen towards its own nation. As like, noone can be saved him from the death; every person should pay or bear the tax who have capacity and within the tax boundary.

The term 'Tax' refers to the levy or royalty charges by the nation towards its citizen who have the capacity to paying it. In other words, it is the cost for the citizen for getting different services provided by the government. From the point of view of the government the tax is charged for operating its mechanism and providing services to citizens as well as tax is collecting for the purpose of reallocation or distribution of wealth getting from who have and providing to who have not. Planning is the primary function of management. To get the success on every field of action we have to make proper planning. So the planning is the root of the success and starting of the action.

That's why, it is said that "the well planning is the half success of action as well as a forward step towards achievement of its end." planning is the first action of the management process, after the finishing of it only other remaining function will be done. The management process has the four steps planning, organizing, implementing and controlling. Among those planning is the first and the foremost important function because without it completion other function cannot be started. Planning is the road map and future guidelines of actual action. Planning is the paper work as per which the functions are done and success will be achieved on the desired field.

Thus, Tax planning refers to the planning of future activities in a way that reduces the tax liability. Tax planning can be defined as an arrangement of one's financial and economic affairs by taking complete legitimate benefits of all deductions, exemptions, allowances and rebates so that tax liability reduces to a minimum. Tax planning does not take a form of "colorable devices" and has no intention to deceit the legal spirit behind the tax law. Tax planning is one of the ways of reducing the tax amount by the taxpayer. Generally tax planning is the art and science of planning the company's

operations in such a way as to attract the minimum liability to tax with the help of various concessions, allowances and relief provided for in the tax laws. It is the genuine use of facilities provided in the tax law (Chander, Subhash and Om Prakash, 1984).

The word tax planning is made from the combination of two words tax and planning. Tax means compulsory payment to the government and planning means taking decision about the future by choosing the best from different alternatives in advance. Tax planning is totally concerned with activities to be undertaken in future. Tax planning is to be done in advance with a view to minimizing the payment of tax within the framework of tax law (Kandel, P.R., 2007). Tax planning is a legal, ethical and economic device of minimizing tax burden. Tax law encourages using this facility. It establishes a good relationship between the government and business community. Tax planning is not only reducing tax liability of tax payer but also improve the economy of a country.

This study is mainly concerned with the tax planning of the business perspectives of non-manufacturing sector in Nepal. Tax planning is made to reduce the tax payment amount but it means not that tax is reduced by the tax evasion. Tax planning and tax evasion both reduces the tax liability; the first is done legally and the second one is done unethically and immorally. So, the tax planning makes efforts to reduce tax payment through morally and ethical behavior. There are four ways of minimizing tax liability; tax evasion, tax avoidance, tax delinquency and tax planning. Among those taxes planning is ethical, legal and moral way of reducing tax amount for business person or entity. This study is made to analyze how the tax planning is realized on non-manufacturing sector in Nepal and its scope on related other areas.

Thus, the research will be conduct to find out the scope of tax planning as well as its significance and practice in business entities. The level of awareness about the tax planning and its significance to business of business person will be also studied under the area of this study. So, this study mainly focuses on the need of tax planning and its

scope on other related areas as well. That's why the study covers the area of tax planning for non manufacturing sector of Nepal and its usefulness to those selected concerns.

Most of the Nepalese taxpayers are ignoring the application of tax planning in real sense of its uses. They only use it for the reduction of tax burden anyhow and any costs from any way of conduction. Tax evasion and tax delinquency are the major problems of Nepalese tax administration into the function performing tax management. Nepalese taxpayers are adopting tax evasions and tax delinquency as the tools of reducing volume of tax amount. Besides this they are also just started to use tax planning system to manage tax liability. Most of the taxpayers are thinking that tax liability is the burden to them composed by the government of Nepal.

So, they are always making efforts to reduce it. Introduction of ITA, 2058 has really created difficulties and complexities whereas 40% of the respondents have said that there are no complexities and difficulties brought by the current Income Tax Act, 2058. Public organizations' focus on incentives and timely assessment of tax where as private organization focus on incentives and training. Tax evasion behavior of Nepalese tax payers can be avoided by simplifying tax laws in terms of language, section and sub-section etc. It is very hard to understand and interpret the Income Tax Act because of vast language, dual section and sub-section etc.

Due to the tax behavior of taxpayers to tax liability they are saying like that because all taxpayers want to minimize their tax liability. Most of the tax payers always show either nil tax liability or less tax liability. There is not deep investigation about tax liability. As a result, they think about tax avoidance and tax evasion. On other hand, the Tax Act has encouraged self assessment so that they can take their real liabilities easily for less tax statement. Loopholes are the weakness of the tax law which the government should avoid by proper tax administration. To take advantage of the loopholes in the tax are not illegal. So, the tax payers always try to do such work for reducing their tax burden.

Recommendations

The major problem of Nepalese tax administration are tax evasions, tax delinquency, corrupt tax administration, complex and contradict tax rules, regulation and provisions, lack of simple and short tax payment procedure, etc. To overcome these problems the government should make the effective and efficient tax rules into simple and understandable. And, this duty is not finished here, they are also should be implemented with fair monitoring too. Public organizations gave priority to incentives to regular tax payers. They told that evasion and avoidance behavior of Nepalese tax payers be avoided by giving incentives to regular tax payers.

So, they will be very happy to submit their liability in time. If the government increase more facilities to tax payers then the application of tax planning can be used broadly i.e. tax payer may avoid the tax evasion and tax avoidance. Those companies responded that tax evasion and tax avoidance behavior of Nepalese tax payers can be avoided by timely assessment of taxes. They said that tax evasion behavior of Nepalese tax payers can be avoided by timely assessment of tax. They mean to say that there must be proper evaluation about self-assessment. Such types of observation warn the tax payers to submit the correct the tax liability in a prescribed time limit.

Tax evasion behavior of Nepalese tax payers can be avoided by simplifying tax laws in terms of language, section and sub-section etc. It is very hard to understand and interpret the Income Tax Act because of vast language, dual section and sub-section etc. So, they agreed that use of tax evasion and tax avoidance can be reduced if tax law is simplifying in terms of language, section and sub-section etc.

On the other hand, tax evasion and tax avoidance behavior of Nepalese tax payers can be avoided by fine and penalties in some extent. Fine and penalties warn those who use to reduce tax liability in illegal way. They view for charging fines and penalties to avoidance income tax evasion and tax avoidance in Nepal. Otherwise, the behavior of tax evasion and avoidance cannot be stopped. Similarly, tax evasion and tax avoidance behavior of Nepalese tax payer can be avoided by providing training to tax payers.

Most of taxpayers are not qualified about the systematic use of tax facilities provided by tax law. Training is believed to them clear about tax confusion.

In converse to this, private organization' respondents gave first priority to incentives. They said that tax evasion and avoidance behavior of Nepalese tax payers could be avoided by giving incentives to the regular tax payer. The incentives play a vital role to use application of tax planning for all organizations.

If the tax payers are satisfied with the facilities provided by Act and the facilities help to reduce enough tax liabilities, then the use of tax evasion and avoidance will be decreased. Incentives encourage them to accept the tax law and submit their correct tax liabilities. Secondly, the private organization' respondents gave priority to provide training for all tax payers to avoid tax evasion and tax avoidance in Nepal. They said that most of the tax payers are unknown about tax planning, practice, method and system of tax planning etc. Therefore; they try to use tax evasion and avoidance to minimize their tax burden.

Only the format and books of tax statement provide by Inland Revenue Department can not be enough for minimizing tax liability by using facilities of tax law in tax planning.

They gave priority to simplify tax laws in terms of language, section, sub-section, reference etc. Moreover, every section has been explained by the reference of another section which is difficult to link each other.

They suggested for the timely assessment of taxes to avoided tax evasion and tax avoidance behavior. They submit correct or artificial statement of income which must be observed time to time. Such types of timely assessment behavior may avoid tax evasion behavior in some extent.

They have supported fines and penalties system. But, they view that fines and penalties should be last instruments to avoid tax evasion and avoidance. They view that showing tax liability should be maintained by self-discipline. Indeed, they gave least priority to fines and penalties.

There is the need of taking corrective actions to tax planning system of Nepal. The need of conductive tax education programs to the taxpayers as well as others is main action that the firstly has to do. Then priority should be given to the option of establishing the management information system into tax administration to make the tax payment procedure easier, efficient, understandable and faster too.

Similarly, additional incentives and facilities to the taxpayers and business organizations as per the situational analysis are need to the existing tax act and laws.

On the other hand, need of simplification of tax laws in terms of language section, sub-section etc. are also realized by selected respondents as the need actions should be taken by the tax administration to make tax payment and tax planning of Nepalese taxpayers effective and efficient.

Similarly, setting and conducting regular monitoring tax collections targets are also another step to be taken by Nepalese tax administration. Making taxpayer aware for their rights, obligations and sending regular reminder notice to taxpayers are also more actions that can be applied by tax administration for betterment.

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Appendix 1

A Survey on the Study of Scope & Practices of Tax Planning in Nepal has been conducted to overview and analyze real tax environment of Nepal in sense of application of tax planning by Nepalese taxpayers.

Dear respondents,

I am collecting the data concerned with ‘Study of Scope & Practices of Tax Planning in Nepal’ perspective for the project work i.e. thesis in partial fulfillment of the requirements for the degree of MBS and it would be grant value of your help in this project work, if you help by filling up the following questionnaires.

Name (optional);

Position:

Experience: years.

Institution:

Address:

Yours Faithfully,

YUBAK LAMSAL

Central Department of Management

I could be most obliged if you could answer the questions given below. Please tick your answer on wherever appropriate.

Q.1 Do you have the knowledge about tax planning?

a) Yes ()

b) No ()

c) Somehow ()

Q.2 The term tax planning is taken as “.....” in Nepal.

a) A way of reducing tax amount from any manner.

- b) A planning about taxes in proper way.
- c) A medium of discouraging the way of reducing tax from unethical and illegal ways.

Q.3 Do you think that tax planning is done by all Nepalese taxpayers?

- a) Yes, it is practiced by all taxpayers. ()
- b) No, it has been ignored. ()
- c) Only few taxpayers adopt tax planning. ()

Q.4 Do you think that tax planning is used for reducing tax liability amount in case of Nepalese business environment?

- a) Yes ()
- b) No ()
- c) A little bit ()

Q.5 To what extent tax planning has been applied in your company?

- a) Very little ()
- b) Moderate ()
- c) As possible ()

Q.6 Which assessment do you use for submitting the tax liabilities?

- a) Self assessment ()
- b) Jeopardy assessment ()
- c) Amended assessment ()

Q.7 How would you reduce your tax liability?

- a) By taking advantages of loopholes in tax law. ()
- b) By availing tax concessions, incentives, allowances, rebates and relief provided by existing tax laws. ()
- c) By over statement of expenses & understatements of incomes. ()
- d) Any other method (Please specify.....)

Q.8 Are the tax exemptions, rebates, deductions and concessions granted to the company under the existing tax law adequate?

- a) Yes ()
- b) No ()
- c) No Idea ()

Q.14 What is your opinion on "Healthy growth of economy through tax planning"?

- a) It is possible ()
- b) It is impossible ()
- c) It can help to some extent ()

Q.15 Do you think, that there are problems in tax planning practiced in Nepal?

- a) Yes, a lot ()
- b) No, there is not ()
- c) Need to be changed/revive the policies ()

Q.16 In your opinion, what step should be taken to improve tax collection & tax planning system?

- a) Setting & monitoring tax collections targets. ()
- b) Making taxpayers aware of their rights, obligations and consequence of failure to comply with tax laws. ()
- c) Sending regular reminder notice to taxpayers. ()
- d) Conductive tax education program to cultivate or nurture tax planning culture among taxpayers. ()
- e) Adopting reasonable tax rates. ()
- f) Establishing effective and efficient management information system to monitor collection operations. ()
- g) Providing more incentives, recognition and support to taxpayers. ()
- h) Simplifying tax laws in terms of language section, sub-section etc. ()
- i) Others (Please Specify.....)

At the end, I would like to express my sincere thanks for your kind co-operation.