

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least development countries in the world. It is basically an agricultural, mountainous and landlocked state surrounding by two large, fast developing nations, China and India. About 80% of the total population is engaged on subsistence farming. Despite its large share in labor market, it paradoxically, contributes 40% of the total GDP. As most of the labour forces are unemployed it is necessary to transform the huge labor force into industrialization sector. The economic development of Nepal is still in initial stage. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially, after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principle and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development.

The growth of banking is not so long. In comparison with other developing or developed countries, the institutional development in banking system of Nepal is far behind. Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Mandev the coin “Manak” and “Gunak” during the reign of the king Gunakamdev were in use. After the unification of Nepal, Prithvi Narayan Shaha, the great king had used coin “Mohar” in his name. An institution called “Taksar” was established in 1989 and it was started to issue the coin scientifically. During the reign of Ranodip Singh an office named “Tejarat” was established in Kathmandu in 1993 B.S. It was used to provide loans to the government

officials and the people against deposit of gold and silver. It had also extended its branches outside the Kathmandu valley for providing loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks (Bhandari, 2008: 6-9).

After the establishment of Nepal Bank limited on 30th Kartik, 1994 B.S., and modern banking system started in Nepal. Under the Nepal Rastra Bank Act 2012, Nepal Rastra Bank was established on 14th Baisakh, 2013 in Nepal. Rastriya Banijya Bank was established in government sector in 2022 and Agricultural Development Bank was established on 7th Magh, 2024. Nepal Arab Bank Limited is the first joint venture bank which was established in 2041 under the Commercial Bank Act 2031 and Companies Act 2021. Now there are 29 commercial banks in Nepal. There are 78 development banks. Then, in the chain, financial system covers 79 finance companies, 18 micro credit development banks, 16 savings and credit cooperatives, 45 NGO's licensed to perform limited banking functions under the supervision of NRB (Shrestha, 2009:2).

Table 1.1
Growth of Financial Institutions in Nepal

Types of Financial Institutions	Number of Institutions								
	1980	1985	1990	1995	2000	2007	2008	2009	2010
Commercial Banks	2	3	5	10	13	17	23	26	29
Development Banks	2	2	2	3	7	26	28	58	78
Finance Companies	-		-	21	45	60	70	80	79
Micro Credit Dev. Banks	-		-	4	7	11	11	12	18
Saving & Credit Cooperatives	-		-	6	19	20	19	17	16
NGOs (limited banking activities)	-		-	-	7	47	47	47	45
Total	4	5	7	44	98	181	193	227	265

Source: Banking and Financial Statistics-48, a journal of Bank & Financial Institutions Regulation Department, NRB, 2010

1.1.1 Meaning of Commercial Bank

Commercial banks are the financial institutions which deal in accepting deposits from individuals and institutions. They provide interest, mobilize capitals and grant loans against securities that help to remove the deficiency of capital. They contribute significantly information and mobilization of initial capital and development effort they also furnish necessary working capital according to the requirements for trade, commerce, industry and even to agriculture sectors. They also perform agency function to make life easier and play important role in credit creation. Besides, they also provide technical and administrative assistance to industries, trades and business enterprises. So, they are being the means for the development of society. Their main objectives are to earn reasonable profit as reward for their service through proper mobilization of idle resources in productive sectors by collective them from different scattered sources. They help to reduce the probability of inflections by increasing the interest rate while economy is in boom period and reducing the interest rate so that investors are interested for investment in case of depression period. More specifically, they collect required capital through float of different types of securities, specially share and debentures.

“Commercial banks have been defined as a bank which operates currency exchanges transactions, accepts deposits, provides loan, performs dealing, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives”(Nepal Commercial Bank Act, 2031).

Commercial Banks are those banks, which perform all kinds of banking function as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium-term credit and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, and letter of credit, etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries can not hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play an important role as follows:

- Help in business expansion
- Encouragement for the right type of industries
- Necessary for trade and industry
- Transfer of surplus funds to needy regions

1.1.2 Brief History of the Evolution of Banking in Nepal

The invention of money is a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gives the emergence of non-institutional banking activities. Merchants, Moneylenders and Goldsmith are the leader of such unorganized economic and financial transactions. Thus, the Merchants, Moneylender and Goldsmith are the ancestors of modern bankers. During the early periods although the banking business is mostly done by private individuals, many countries established public banks either for the purpose of facilitating commerce or to serve the government. The Bank of Venice was established in 1157 A.D., which was supposed to be the most ancient bank. Originally, it is not a bank in modern sense being simply an office for the transfer to the public debt.

During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bill on exchange, both for the citizen and foreigners. During 1407, The Bank of Geneva was established. In 1609, The Bank of Amsterdam was established. It was established to meet the needs of merchants of the city. The bank also adopted a plan by which depositors used to receive a kind of certificate entitling them to withdraw his/her deposit within six months. The most of the European banks now in existence are found on the model of the Bank of Amsterdam.

The evolution of the original banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of “Tejarath Addha” during the period of the premier of Ranodip Singh, the unorganized sector i.e. Moneylenders, Goldsmiths, Landlords had their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to Kathmandu valley and some urban areas of the Terai. “Tejarath Addha” may be regarded as the father of the modern banking institutions and for a long time it has rendered a good service to government servants as well as to general public by mobilizing scattered saving in the country and provide credit to the people at a cheaper rate.

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal to think of a new establishment of banking institutions. Consequently, Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the “Nepal Rastra Bank” was set up under the Nepal Rastra Bank Act.1955, with an objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the “Rastriya Banijya Bank” was established in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as “Joint Venture”. This entry of foreign bank is expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Bank Limited in 1984 A.D. under the company act 1984 was a stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following this, in 2042 B.S. Nepal Indo-Suez Bank Limited (name has been changed to Nepal Investment Bank Ltd.), in 2043 B.S. Nepal Grindlays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited

and in 2050 Nepal Bangladesh Bank Limited are established. Now there are more than a dozen commercial banks performing their operation.

This way, Nepalese banking has stepped a great stride in its development. However, Nepalese banking has not been succeeded in bringing change in the economy in society and in people. The large portion of national economy is still behind the touch of present banking system. The unorganized moneylender has been playing a monopoly role in granting the loan to public of remote economy and this monopoly results in excessively higher interest rate than that of institutional banker. Thus, the moneylenders are still exploiting the public of rural sector in the absence of easy access to banking activities. Increasing the number of financial institutions has not proportionately increased the total banking behavior of people. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and quantitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered almost.

NRB is an apex institution in money and capital market in Nepal. It works as a central bank of the country. Banks and other financial institutions are supervised, directed, regulated and controlled by NRB. Following is the list of the licensed Commercial Bank as on 2010.

Table 1.2

List of Class A Licensed Commercial Banks (Mid-June 2010)

Names	Head Office
1. Nepal Bank Limited	Dharmapath, Ktm.
2. Rastriya Banijya Bank	Singhdarbarplaza, Ktm
3. NABIL Bank Limited	Kantipath, Kathmandu
4. Nepal Investment Bank Ltd.	Darbar Marg, Ktm.
5. Standard Chartered Bank Nepal Ltd.	Naya Baneshwor, Ktm
6. Himalayan Bank Limited	Thamel, Kathmandu
7. Nepal SBI Bank Limited	Hattisar, Kathmandu
8. Nepal Bangladesh Bank Limited	Naya Baneshwor, Ktm
9. Everest Bank Limited	Lazimpat, Kathmandu

10. Bank of Kathmandu Limited	Kamaladi, Ktm
11. Nepal Credit & Commerce Bank Ltd.	Siddharthenagar, Rupandehi
12. Lumbini Bank Limited	Narayanghat, Chitawan
13. Nepal Industrial & Commercial Bank Ltd.	Biratnagar, Morang
14. Machhapuchhre Bank Limited	PrithiviChowke, Pokhara
15. Kumari Bank Limited	Putalisadak, Ktm
16. Laxmi Bank Limited	Adarshanagar, Birgunj
17. Siddhartha Bank Limited	Kamaladi, Ktm.
18. Agricultural Development Bank Ltd.	Ramshahapath, Ktm
19. Global Bank Limited	Birgunj, Parsa
20. Citizen bank Limited	Kathmandu
21. Sunrise Bank Limited	Kathmandu
22. Prime Commercial Bank Limited	Kathmandu
23. Bank of Asia Nepal Ltd.	Kathmandu
24. DCBL Bank Ltd.	Kathmandu
25. NMB Bank Ltd.	Kathmandu
26. Kist Bank Ltd.	Kathmandu
27. Janta bank Ltd.	Kathmandu
28. Mega Bank Ltd.	Kathmandu

Source: Bank & Financial Institutions Regulation Department, NRB

1.1.3 Functions of Commercial Banks

Commercial banks have to perform various functions for overall development of trade, industry, agriculture including priority and deprived sectors the growing banking needs and habits of people and competitive environment has made the banking sectors even more challenging therefore functions which they provide, cannot be under emphasized in present context of market globalization. Therefore, main functions of commercial bank are summarized as follows:

- Commercial bank accepts various types of deposits from the public on the name of different types of accounts.
- Commercial bank provides the required loan or credit to various sectors of the economy.
- It also performs agency function for which its acts as an agent and claims for commissions.

- The commercial bank issues credit instruments like:

Letters of credit and traveller cheques

- Remittance of money.
- Keeping valuable things in safe custody.
- Collection of trade information and banking statistics.
- Dealing in foreign exchange.

1.2 Statement of Problem

Nepal is one of the poorest countries of the world. Being a mixed economy, Nepal has suffered for several factors such as imperfect market structure, unbalanced mode of payments, lack of proper implementation of economic policies, every- prevailing hurdles in import and export of goods the total revenue generated by government which does not meet the national expenses. It has trade deficit continuously from several years. The balance of payment is also negative in some years. In every year, the deficit of government budget is financed through loans from foreign countries and institutions consequently the burden of loans to the Nepalese is increasing in each year.

Nepal is one of the least developed states among developing countries, lacks of the implementation of many economic and fiscal policies in rational and efficient ways.

Nepal Government in Nepal is being unable to realize the expected income tax for personal as well as corporation. Most of the personal taxpayers does not recent the income source even they earn significant amount. They hardly keep the account similarly, and some companies have been practicing to evade the tax liabilities by hiding income's result. So, the actual collection of income tax is being very low. This problem has been stabled continuously due to corruption too. The income tax system in Nepal harasses to the taxpayers in the payment of tax and it causes to reduce the income tax revenue.

But in Nepal there is no proper supervision over the staff members of tax collecting department. Behaviors of tax officer's also are not satisfactory and corruption is the main

problem of tax administration. There is also a problem related to tax awareness among general public. It seems that income tax has become more difficult. There is no reliable and sufficient data for tax purpose and there is lack of information and co-ordination between different department and Inland Revenue Department.

Commercial banks and finance companies are corporate bodies. They are profit-oriented organizations. They make profits from financial transaction by reducing services to the public and business organizations and pay income tax to the government from their table income. There are also some problems in collecting of income tax from commercial banks and finance companies. Some of them have not yet got audited their accounts for five to six years. This practice should be eliminated for more generating of income tax. On the other hand, it seems that commercial banks have appealed to revenue tribunal time to time. It shows there are some weaknesses in tax assessment of such commercial banks and finance companies and vague law and regulation of income tax law and finance act. These are the main problems of this study to solve as far as possible to mobilize more resources through income tax from commercial banks and finance companies.

1.3 Objectives of the Study

The study has primarily focused on the tax collection and practices adopted by the samples of banks and finance companies with a view to provide workable suggestions which may be helpful to the formulation of optimal income tax collection and contribution of tax paid by banks and finance companies to the government revenue for development.

The main objective of this study is to gain an insight into the income tax collecting from commercial banks and financial institutions to give appropriate suggestions to improve the tax system so that the government can collect more revenues and use them in the process of national development. The study does not only help the government to collect more revenues but also make the concerned people aware about the exemption of income and deduction of expenses.

So, the specific objectives of the study are as follows:

- To study the existing sources of taxable income in Nepal.
- To evaluate the contribution of income tax by commercial banks and finance companies to the government revenue.
- To identify the strength and weakness of income tax system.
- To provide suggestions and recommendations on the basis of above study.

1.4 Significance of the Study

Every year there is a need of mobilizing adequate resource for meeting the increasing financial which requires higher magnitude of financial resources for the development programmer. Domestic resources have more significant role than the external resources for the development programmer. Among the domestic resources, income tax plays a significant role and it seems to be one of the major potential sources of Nepal.

But it is matters of great unpleasant to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase the contribution of income tax in the national revenue, as well as problems faced by the income tax system should be researched and analyzed objectively. But it is pity to say that the study and research works in the areas of income tax have been lacking in Nepal.

Commercial banks and finance companies are also income taxpayers the problems they are facing in tax paying should be corrected so hat they may contribute more income tax to nation as national as national receipt. Commercial banks and finance companies are such institutions, which are directly linked with most other business activities the condition of business trade and industries can be visualized through the analysis of activities of commercial banks and finance companies. A tax collection analysis form commercial banks and finance companies may help to locate potential new and hidden tax payers aside, this analysis may be useful to make new polices for granting various facilities to the commercial banks and finance companies for making more taxable income in the competitive environment and legal correction. Vague section of income tax can also be rectified from such analytical study. This study is concerned with there

aspects and it tries to make commercial banks and finance companies and collecting income tax from them.

Besides, this study will also helpful to the economists, planners, tax officers, tax administrators and government. This study will also be helpful to the students, teachers, researchers and other interested persons and this study will also be beneficial for bankers and people who are interested on it.

1.5 Limitation of the Study

This study is based on income tax collecting form banking sector and finance companies in Nepalese income tax. It is not be a complete study of income tax seems in Nepal. No study can be free from its own limitation of the present study has also some limitations. Reliability of statically tools used and lack of research experience are the major limitations. Some other limitations can be enlisted as follows.

This study has been conducted to fulfill a partial requirement of MBS Programmer.

- The study has covered a time period of last 8 years 2057/58 to 2065/66.
- Out of 29 commercial banks only 5 commercial banks and out of 77 financial companies only 5 financial companies should be selected.
- The study is primarily based on the secondary data, especially annual reports of concerned banks and finance companies, along with other related journals, magazines, books etc. have been taken.

1.6 Organization of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters, which are as follows:

Chapter-I Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, and objectives of the study. It is oriented for readers for reporting giving them the perspective which they need to understand the detailed information about coming chapter.

Chapter-II Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas, It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various sources of data related with study and various tools and techniques are employed for presenting the data.

Chapter-IV Data Presentation and Analysis

This chapter analyses the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V Summary, Conclusion and Recommendations

On the basis of the results from data analysis, the researcher has concluded about the performance of the concerned organization in terms of credit management. It also gives important suggestions to the concerned organization for better improvement.

CHAPTER-II

CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning of Tax

Many tax experts have defined about tax in their own words. They are presented in the following.

According to the definition given by the Professor Seligman, "tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred"(Dhakal, 2001: 121).

According to the definition given by Taylor, "A tax is a compulsory payment to the government without expectation of direct benefit in return to the tax payer" (Amatya, 1996:68).

According to the definition given by Plehn, "taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states" (Dhakal, 2001: 126).

From the above mentioned definition, it is clear that any compulsory contribution made by public to the government without expectation of the corresponding benefit by the payer is tax.

Government could expend such amount in the regular expenditure such as its administration, peace and security etc. to establish the social moral as well as in the development expenditure in different projects to increase the economic status of the poor people of the nation. The person to whom the tax is imposed but don't pay the tax is subject to the punishment under the legal provision.

2.1.2 Objectives of Taxation

The government mobilizes its revenues through budget in development programmes, daily administration, peace and security and public interests. Thus, good tax policies are considered as tools of social and economic revolution.

Therefore, the government collects tax to achieve the following objectives (Dhakal, 2001: 186).

- **To Raise More Revenue**

The government needs revenues to perform development and welfare programmes of the nation. The government imposes taxes to raise more revenues.

- **To Reduce Economic Inequalities**

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

- **To Maintain the Welfare State**

The government must perform different welfare programmes, such as, education, health etc. and should maintain economic stability in the country. Thus, government collects taxes in order to perform such programmes.

- **To Encourage Production of Essential Goods**

Tax policy provides incentives and facilities to the industry producing the essential goods so as to encourage their production.

- **To Check the Consumption of Harmful Goods**

Higher tax rate will be levied to the industries producing luxurious and harmful goods so as to check their consumption.

- **To Remove Regional Economic Groupings**

The government provides tax exemptions, rebates and concession to those industries which are operated in the backward and remote regions. As a result, the economic activities will be increased in these regions so as to remove the regional economic disparity.

In addition to these objectives, others objectives are:

- Rapid economic growth
- Increasing saving and investment
- Reduction in unemployment
- Removal of regional disparities

In conclusion, it can be said that the establishment of peace and welfare economic state is the major objective of taxation.

2.1.3 Canons or Principles of Taxation

A good tax system should have certain principles or canons. Different writers have their own opinion regarding the canons. Some major canons are presented here. As Per Adam Smith (Dhakal, 2001: 66).

- **Canon of Equity**

This canon emphasizes paying the tax on the basis of ability to pay. Tax should be levied on equal ground to all the taxpayers having equal incomes.

- **Canon of Certainty**

As per canon of certainty the time, method, manner and quantity of the tax should be specific.

- **Canon of Convenience**

The time, place and manner of tax payment should be convenient and the language of tax laws should not be complex.

- **Canon of Economy**

The cost of the collection of tax should not be higher. There should be minimum difference between the amount that people are ready to pay tax and the amount that actually goes to the state treasury. As per “Bastable” (Dhakal, 2001: 98).

- **Canon of Productivity**

Every tax system should be revenue productive, which means it should be taxed in that income which provides adequate revenue and the taxes that do not provide adequate revenue should be withdrawn.

- **Canon of Simplicity**

Every tax system should be simple to understand and applicable in public life. Complexity in tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance whereas complex tax system having lower tax rate may not be complied.

- **Canon of Flexibility**

Tax system should be flexible enough as per the requirement of the economy of the country. Higher the economy higher will be the revenue and vice versa. Similarly, higher the requirement of the revenue higher rate should be charged and tax rate should be minimized to the industries of necessity.

- **Canon of Diversity**

Tax system should not depend on limited income sources. It should cover wide range of income sources. This principle says that tax should be levied on various stages and various sources.

- **Canon of Neutrality**

Canon of neutrality says that the tax should not affect the economic sector of economy. Tax system should not be only focus on collecting more revenue but also take care of the effect in the economy.

In addition to these canons, the other canon can be:

- **Canon of Coordination**

In a democratic country central as well as local governments have right to raise revenue. Therefore, coordination between central and local level government is necessary.

2.1.4 Types of Tax

Tax may be of various types. The rate and nature of tax may be different as economists have classified the tax from different angles. They have given a very long list of the types of tax. But on the basis of impact and incidence the tax may be classified into two types:

- Direct tax
- Indirect tax

1. Direct Tax

A direct tax is really paid by the person to whom it is legally imposed. Direct taxes are levied on the income and property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society.

2. Indirect Tax

An indirect tax is imposed to one person but paid partly or entirely by another. Indirect taxes are generally imposed on consumption of goods and service. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumers (Kandel, 2003: 123).

2.1.5 Income Tax

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of tax according to

their income. Tax economists have a view that an income tax is a levy which is imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country.

2.1.6 Administration

Certain established practices and techniques in society are recognized as constituting the field of administration. Those administrative practices and managerial techniques enable the various organizations of a society – its governments and business enterprises, its social clubs and labor unions to fulfill their responsibilities and to execute their programmes. The majority of authors agree that administration plays an important role in society. But while they agree on the importance of administration, they assign to the subject different degrees of significance.

Henry Fayol believes that the administrative process is universal, that its existence is percentage wise the most element in particularly all vocations and professions. So, there is widespread need for the scientific study of administration. While Paul Pigars feels that the main purpose of administration is to preserve the status in society. Brooks Adam regards administration as a more important, indeed as the most important human facility because its function is to facilitate social change and to cushion the stock of social revolution. James Burnham contends that the administrators or managers of society have appropriated so much power that the decisive revolution has already arrived, neither fascistic nor communistic revolution, but managerial. Charles E. Marrian regards administration as the evolution of another human technology leading to man's adaptation to his complex environment. Charles A. Beard believes that administration is the key science of contemporary civilization.

2.1.7 Tax Administration

Tax administration is regarded as a tool for including some responsibilities for determining the policies and the programmes of government related to tax. Especially it is the planning, organizing, directing, coordinating and controlling of government

organization related to taxation. The shape of tax system in practice is determined to a great extent by the way it is administered.

The main objectives of tax administration should be the efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in terms of money, time, inconvenience and mental worry. More specifically, the objectives of tax administration may be stated as follows:

- To assess and collect taxes in order to meet the revenue requirements of the country.
- To facilitate and encourage voluntary compliance by taxpayers.
- To deter tax evasion and avoidance.
- To maintain public confidence in the fairness and integrity of the tax system.
- To administer tax legislation fairly, uniformly, impartially with firmness.
- To keep high the morale and motivation of tax officials.
- To work efficiently in order to make the tax system effective.

2.1.8 Significance of tax Administration

tax evasion and tax avoidance, whether at the national or international level, violate the principle of fiscal equity and undermine the concept of voluntary tax compliance, that is, the timely filing and reporting of required tax information, correct self-assessment of taxes due and their timely payment without resource enforcement action.

tax evasion is normally considered to occur when non compliance is the result of a willful and conscious failure to notify the taxing authorities of taxable assets or income activities giving rise to taxable income, a deliberate failure to pay taxes legally owed or use of fraud to conceal the existence of taxable income and or obtain allowances or the repayment of taxes. Tax avoidance on the other hand, a less precise concept, is generally in such a way as to take advantage of weaknesses or ambiguities in the tax law to reduce the tax payable below what it could otherwise be, without actually breaking the law.

tax avoidance techniques, although legal-that is, in conformity with the letter of the law nevertheless achieve the reduction or elimination of tax liability in circumstances where it

is the underlying intention of the law that tax should be charged. Although tax avoidance may be regarded as immoral, the techniques employed are legal and tax conduct involved is not fraudulent.

It has shown that there are multiple motives for both compliance and non-compliance with the tax laws. With regard to compliance, it gives the meaning of self motivated to pay tax. Tax payers who obey may be motivated by a sense of civic responsibility or social justice or by a fear of sanctions that some cases by fear of the less of social acceptance if their delinquency should ever become public knowledge.

With regard to non-compliance, a number of reasons for failure to abide by the tax laws:

- High tax rates.
- Lack of trained staff to examine or audit accounts.
- Weakness in the tax laws and administration
- Lack of coordination between tax departments and other government departments.
- Weakness in the tax laws and administration
- Lack of coordination between tax departments and other government departments such as custom.
- Absence of international conventions on income tax for exchange of information.

Tax evasion and avoidance—two forms of non-compliance—significantly reduce the amount of collected taxes, that is, the amount of compulsory unrequited payments to government that enable to perform the tasks constitutionally and legally entrusted to them, and increase their dependence on non tax resources.

Tax evasion and avoidance also increase the desire for tax payer to ignore the tax laws or seek artificial ways around them. In order to offset the revenue losses this occurs, government may have to levy new taxes to increase tax rates and eliminate exemptions, thereby imposing an unfair burden on honest taxpayers. The impact of this is perceived to be high taxes which are not returned with services or other identifiable benefits. They are accompanied by criticism of the size and inefficiency of government.

In the circumstances described above, the ability of tax administrations to enforce compliance and thus minimize the disparity between taxable capacity and tax effort levels becomes a matter of honest priority.

The challenge facing by many developing countries is thus to overhaul their tax administrators so as to enhance their overall performance. A tax administration of high quality can help not only to meet of achieving revenue requirements but can also constitute a means of achieving greater financial self-reliance, since external financial assistance even when forthcoming can be no more than an adjunct to domestic financial resources. Moreover, any existing or new foreign borrowing will have to be serviced within the limits of two degree, the ability of developing countries to attain sustainable administration with great integrity, capable of collecting revenue as specified in the tax legislation and, at the same time, of providing tax payers with better service.

A tax administration that operates with maximum efficiency and effectiveness helps to mobilize more revenue, thereby enabling governments to achieve greater financial reliance and facilitating the pursuit of growth – oriented structural adjustment programmes, the provisions of requisite infrastructure for economic and social development, and the creation of a more hospitable environment for private foreign investment.

In addition to fostering a more attractive environment for foreign investment, a smoothly functioning tax administration yields other benefits including the following:

It enhances the ability of government to efficiently enforce tax with potentially high revenue yields (such as income tax and excess profit tax) which requires precise and sophisticated applications.

It obviates the need to broaden the tax base, i.e. to levy new taxes and/ or raise tax rates and may make it possible to eliminate or reduce burdensome taxes, grant more tax exemptions and enlarge income tax brackets without reducing tax revenue; and

It may make it possible to successfully tax the agricultural sector, which in many, countries remains largely taxed despite its inherent potential as a significant source of revenue.

In a broader context, an efficient and effective tax administration will help developing countries to take advantage of economic recovery elsewhere in the world by including their determination to undertake necessary reforms. Thus bolstering their ability to attract a greater share of foreign direct investment, bring back home resources lost to capital flight and come to grips with their external debt servicing burden through negotiations with their creditors. It might even help these countries to qualify for more official development assistance for the financing of needed infrastructure.

2.1.9 Tax Administration and Fiscal Policy

Tax administration interacts with fiscal policy in various ways: For example: Higher taxes on certain activities or sectors, although an administratively convenient way of increasing revenue or reducing a deficit, may in fact act as a disincentive to production and efficient revenue utilization; these taxes also have a contractive effect on consumption, since they reduce the tax payer's purchasing power.

If it is considered politically unacceptable to increase taxes as a means of reducing budget deficits, the tax administration may be called a strong life for achievement of this goal by operating more efficiently and effectively. If successful, this approach reduces the budget's contribution to growth in the money supply and this help to curb inflation and decrease dependence on non-bank financing.

A budget- balancing determination would make the government more conscious of its spending behavior and give the tax administration an additional incentive to combat tax evasion and avoidance and a larger budget deficit resulting from weaknesses in tax administration may lead to a larger public debt and higher interest and tax rates as well as to lower capital accumulation and employment growth rate. Financing large deficits through money creation fuels inflation and discourages private investment. Higher tax

rates and/ or new taxes may then become the only viable means of generating the domestic savings needed for capital-formulation projects.

2.1.10 Tax Administration and Tax Policy

With regard to tax policy, experience has shown that even in countries where tax policy reforms have been implemented their economic impacts has often been compromised by poor tax administration and revenue yields have not been up to the mark. Efficient and effective tax administration gives the makes of tax policy a wider range of options and is, in fact, the key to effective tax policy, for no policy can be constructive or even feasible unless properly implemented by the tax administration

2.1.11 Tax Administration and Tax Structure

The effectiveness and efficiency of the tax administration also affects the tax structure. The tax structure can be modified, but unless the tax administration is capable of enforcing both new and existing taxes, the modifications may have no significant impact on tax collection. The importance of tax administration performance in relation to the tax structure has been described by the Director of the Fiscal Affairs Department of the International Monetary Found in the following terms:

“In arriving at the desirable tax structure that they will recommend, fund missions take into account:

- The government’s priorities.
- The country’s macro-economic situation.
- The strength and honesty of the country’s tax administration
- The existing statutory tax structure.
- The structure of the economy, and
- A variety of other factors such as constitutional or legal limitations, prevailing customs and attitudes, the incidence of the existing tax system and so forth.

The factors mentioned above constrain the number of feasible options and, to some extent, influence the final tax structure. The weakness of tax administration may rule out

all but the simplest options the maximum that “Old taxes are good taxes” would argue against a major overhaul of the tax system. There is only so much change that a tax administration can absorb at any one time” (Adhikari, 2003: 236).

2.1.12 Essential Functions of the Tax Administration

The tax laws impose on tax payers certain obligations with which they are required to comply. Generally speaking, they must be registered on the tax rolls, file returns, provide full and accurate information and pay the taxes due on time. A tax administration ‘carries out the ordered of tax policy’ its basic mission is to ensure compliance with the tax laws and regulations as they stand or are interpreted by the courts. It must help tax payers to fulfill their tax obligations and when necessary, induce or compel them to do so.

In order to execute its basic mission, a tax administration performs certain fundamental functions tax payer registration and identification, assessment (including valuation), collection and audit. These functions have been classified as ‘essential’ whereas personnel management planning and control, and tax payer information and assistance have been described as ‘auxiliary’ or ‘support’ functions. The ‘essential’ functions have also been labeled ‘operational’, since they involve the actual collection of taxes and entail close relations with tax payers while the ‘auxiliary’ or ‘support’ functions have been designated as ‘normative’ meaning that they involve in interpretation and application the preparation and issuance of guides and standards and the establishment of working methods and procedures.

In the performance of its essential functions, a tax administration usually faces serious constraints and difficulties in developing countries, where many tax payers, unlike tax payers in industrialized countries, are not enmeshed in a set of interlocking recorded transactions. In industrialized countries, a major part of the tax base is linked to the activities and assets of large organizations, whereas, in developing countries, the potential base would normally be linked to the activities and assets of self-employed business persons, farmer and professionals, who constitute the ‘hand-to-tax’. Consequently, for reasons of administrative convenience and feasibility, developing countries tend to rely

on a handful of easy-to-administer indirect taxes such as export duties, import duties and excise duties, other taxes on imported goods.

In fact, in many developing countries the tax laws can, to a large extent, be enforced fully only in the formal sector, for frequently only corporation has the capacity to maintain proper accounts. First, developing countries often have a large informal sector, consisting of black markets, capital flight and so on, which are virtually beyond the reach of level of illiteracy not only creates ignorance of the tax laws and regulating but provides an excuse for it. The alleged inability of tax payers to furnish the documentation is needed for a realistic assessment prevents the income, net worth; gift and land-whose incidence is generally assumed to rest with those who pay them- offer greater incentives and more opportunities for tax dodging. In addition, incomes, imports, sales, real estate and the like may have objective or true values completely different from those on the basis of which the relevant taxes are calculated. This is not necessarily due to a deliberate intent to evade or avoid taxes, but any be the result of poor record-keeping and accounting standards, other things being equal, the lower the compliance cost, the better the tax admonition performance. Optimum compliance is the result of improved tax payer registration and identification assessment, collection and audit.

2.1.13. Taxpayer Registration and Identification

A tax admonition needs to take all feasible steps to ensure that all natural and legal persons liable to taxation are registered. However, given the limited resources of many taxes administration and efforts to register new tax payers have to concentrate on areas which seem likely to yield significant revenue.

Upon registration, each tax payer is immediately be issued an identification number to ensure that documents and records in master files can easily be traced to a specific tax payer. Once, issued the identification number has not be duplicated, reissued or cancelled in the event of the tax payers' death or cessation of operation.

2.1.13.1 Assessment

For assessment, it has been followed where feasible and appropriate, that is called the conventional approach to assessment, which emphasis voluntary compliance through self assessment- backed by random but rigorous auditing and stringent penalties and the provision to taxpayers of outreach services, including technical advice on tax assessment obligations. In that connection, tax payers have been authorized to file and play in ways that minimize compliance cost.

On the other hand, when prevailing conditions make it necessary to rely primarily on administrative or official-assessment of all tax returns, the tax administration has to carry out economic or statistical studies where finding helps tax official to make ‘best judgment assessment, when the information supplied by tax payers is deemed to be incomplete or inaccurate. To determine estimated income or value-added in the case of tax payers who can not be counted on to maintain comprehensive accounts. “Best judgment’ assessment would result from the application of the rule of thumb used by experienced tax officials and the judgmental guidelines formulated by many plausibility of the information supplied by tax payers.

2.1.13.2 Collection

In developing countries as well as in industrialized countries – the tax collection function is guided by the need to maximize revenue. Collection at source and other current payment arrangements for direct taxes (personnel income tax, taxes based on accounts and records) has been strengthened and even extended. To that end, the tax administration is to be designed and implemented a monitoring system comparable to the credit control system used in private business.

In developing countries, where must tax payers either do not keep reliable records on manage not to reveal them the scarcity of administrative resources makes it highly desirable to use withholding as extensively as possible: third parties engaged in transaction with potential and actual tax payers is required to withhold appropriate amounts from payments. The amounts thus withheld by third parties on behalf of the tax

administration is transmitted to official accounts as promptly as possible and credited against the tax liabilities of the appropriate tax payers.

A person is to be imposed if the tax payer underestimates by more than a given percentage (e.g. 25 or 30 percent) his or her liability, as opposed to the actual assessment made by the tax administration or if the tax payer fails to pay a tax installment within specified time period.

2.1.13.3 Audit

Auditing is accurately focused and carried out with a high degree of supervision in order to ensure its effectiveness and integrity. Auditing is to be based on appropriate selection criteria: over-extensive auditing is impractical since any additional revenue raised is offset by increased administrative costs. A good information system, using computers where feasible and appropriate is to be facilitated rapid detection of non-filers, stop-filers. Taxpayers must be categorized according to type of tax, type of business, geographical location and potential contribution to revenue.'

2.2 Review of Previous Studies

2.2.1 Review of Reports

Dr. Gobinda Ram Agrawal (1978) on "Resource Mobilization for Development; The Reform of Income tax in Nepal". It was identified that a substantial resource gap was found in revenue structure in Nepal. Tax administration is suffered from a number of interacting and interrelating problems which has badly affected its productivity. Dr. Agrawal conducted a primary research in various aspects of income tax and also explained mathematically the untouched side of elasticity of income tax and its future projection. The picture of resource gap in Nepalese finance has been identified in the first chapter of the report. The main reason for this resource gap has been identified as the low-sided growth of government revenue generation from domestic resources as compared to government expenditure. He has calculated the elasticity of major Nepalese taxes using the double log linear model. Projection of income tax and resource gap has been made using similar linear model. Though the study has been identified as the first

comprehensive scientific study in the income tax in Nepal and useful for the research purpose from various aspects, they are partially irrelevant at least at present context.

R.S. Suwal (1981) has described and examined various problems in Nepalese tax system, importance of income tax in solving the financial problems in Nepal and economic effects of income tax on production and trend of income tax in her dissertation “Income tax system of Nepal”. The problems as noted by her are the absence of clear and comprehensive definition of income, low paying capacity and tax consciousness, high tax rate corruption etc. Her suggestion is to establish some measures regarding tax administration for collection of income tax in Nepal.

Purusottam Subedi (1982) has discussed the role, legal aspect, historical background and cost of collection of income tax in his dissertation ‘An Analytical Study of Income Taxation in Nepal’. He has analyzed the contribution of income tax to total revenue, growth of income tax collection and its percentage from one prospective of tax administration.

Santi Baral (1989) has studied “The Contribution of Income Tax in Tax Structure of Nepal”. She has given some notable points of income tax evasion in Nepal. She has also blamed the inefficient tax administration as one of the main reason of evasion of tax in Nepal.

Santosh Raj Poudyal and Mr. Prem Prasad Timsina (1990) have published a book ‘Income tax in Nepal’. It gives a thorough ideal of theoretical and practical ideas of income tax but it does not able to deal with major problems and defects of income tax system.

Rup Bahadur Khadka (1994) has written wrote a book entitled “Nepalese taxation: A Path for Reform”. It deals with national and local taxes and tax administration in Nepal. It traces the path of evolution of Nepalese tax system and present the tax system of that period. It appraises the Nepalese tax system on the basis of conventional, theoretical

concepts and suggests measures of its improvement. It examines the structure and operation of the Nepalese tax system of that period in more detail.

Kamal Deep Dhakal (2002) has presented his extended, modified and enlarged edition of his book as prescribed by the syllabus of BBS third year. It includes the provisions made under income tax laws and the methods of income tax assessment. The book is informative rather than analytical.

Vidhyadhar Malik (2003) has published a book on Nepalese modern income tax system including changes brought by the income tax act 2058 and the recent development of income tax management in Nepal. The need and importance of modern income tax system is also discussed. He has also discussed on tax administration, assessment procedure, collection of tax review etc.

Ishwar Battarai and Mr. Girija Prasad Koirala (2009) jointly have presented a book named “Taxation in Nepal” specially designed for BBS third year as a reference. They have presented some theoretical aspects with numerical problems of taxation in Nepal that based on income tax act 2058. But the book does not able to give a direction to deal with problem of tax administration

Chandramani Adhikari (2008) has written a book named “Public Finance in Nepal: Revenue and tax Policy, Administration and Organization in Nepali”. In his book, he has mainly focused on the administrative part of taxation in Nepal. He has described the structure of tax administration from about the administrative aspect regarding tax. Moreover, this book has given overall idea about tax administration in Nepal. However, the book is presented which is only descriptive manner, the new idea has generated after studying the book.

Rup Khadka (2005) has presented a book named “Modernizing tax Administration in Nepal”. It has really most useful book to conduct whole research. It has given through idea about tax administration in analytical way. The book has a nine chapters starting

from development of tax administration to conclusions and recommendations. The writer has focused on the human resource development of tax administrators. He has also given some new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

Parmeshwor Pant (2002) has tried to show the income tax system and its role in National economy in his dissertation “A Study on Identified Various Problems of Income Tax Management in Nepal” .He has shown the problem as lack of effective personnel management, lack of reward and punishment system, lack of managerial efficiency, poor income tax procedure, poor tax information system, lack of tax payer’s education etc.

Chunamani Siwakoti (1987) has examined various factors related in the field of income tax in his dissertation ‘An Analytical Study of income tax in Nepal’. The major problems identified by him are tax evasion, delay in assessment, and lack of public information, complicated acts and other defects in the income tax act. He has suggested for progressive, separate research units efficient administration, separate research units in tax offices and penalties to tax payers who do not maintain accounts.

Naina Nepal (1983) has analyzed existing position, problems and prospects of income tax in her dissertation “A Study on Problems and Prospects of Income tax in Nepal”. She has indicated the major problems in Nepalese tax system that are inefficient income tax administration, mass poverty, lack of tax co-operation between tax payers and tax administration, assessment deficiency etc. Her suggestion is towards the improvement on those specified problems.

2.2.2 Review of Thesis

Binita Shrestha (2007) has presented a dissertation under heading “Revenue Collection form income tax in Nepal: Problems and prospects”. She has cleared various aspects of income tax in their contribution for national economic development. Her finding has showed that there are many problems related to income tax for example one of the main problem as indicated by her is revenue collection form income tax is low. Again, she has

concluded that Nepalese income tax law is inappropriate and the administration is worse. She has suggested that income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Strong commitment, fair and uniform imposition is to be stored. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated.

Tanka Nidhi Dahal (2008) has submitted a dissertation with heading “Income tax Management in Nepal”. He has focused on many administrative aspects of income tax. He has concluded that the effectiveness of tax system depends that on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy back sliding the gains in the revenue front. He has suggested that, for the improvement of tax management is belonged to strong political commitment. In this way, various books, dissertations reports and articles have published in journals and newspapers these are reviewed while preparing this dissertation. Most of literatures are concentrated on administrative, legal and assessment procedure of income tax. Since, all of them have identified the main problem in this sector as poor performance of tax administration Although very few studies was concerned on focusing tax administration covering all sources of taxes in separate way. Setting the lack of study is mainly concentrated on covering all aspects of tax and focusing particularly income tax in more specific way.

Durga Prasad Ghimire (2008) has examined the contribution of income tax particularly focusing in Public Enterprises in his dissertation “Income tax in Nepal; Its Structure and Contribution from Public Enterprises to Government”. He had evaluated the performance of tax administration of Nepal, particularly after implementation of tax ITA, 2002. He had found that the tax administration of Nepal is inefficient due to mainly lack of trained and competent employees and complicated tax laws.

Raj Kumar Bhattarai (2009) has examined the effectiveness of corporate income tax in his dissertation “Effectiveness of Corporate Income tax in Nepal”. He has thoroughly

studied government mechanism with special reference to tax administration in Nepal. He had concluded that there is a deep rooted corruption in income tax administration of Nepal where the tax officer is leader and both the tax payer officer is leader and both the tax payer and auditor are follows in the function of corruption. He has pointed out the major cause and regulations in theory and practice. He has shown the lack of balance between rights and duties of tax payers, balanced delegation of authority, responsibility and accountability, poor reward and punishment system and lack of systematic evaluation and control mechanism as the drawback of tax system.

Bharma Raj Shakya (2009) has studied about Income tax Act, 2002 in his dissertation “A study on ITA, 2002”. He has concluded that a commitment is must within tax payers and tax administration to make a fair and safe tax administration He has given emphasis to provide sufficient incentives and remuneration with its programme like promotion and motivation. His suggestions are for the improvement of tax administration after implementing ITA, 2002, are: The tax act must be simple and understandable to tax payers and tax administrators; The emphasis is given to establish information center where tax payers can get information regarding tax law; The focus point must be provided sufficient incentive and remuneration to tax administrators to expect the full effort of tax administrators towards their duties and to conduct training programmes.

2.3 Research Gap

The purpose of the research work is quite different from the studies made by the above person (related to select five commercial banks and financial institutions). The author has focused this study in contribution of income tax of commercial banks and financial institutions of Nepal in comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study, like average, standard deviation and coefficient of variance.

This study is a little bit different than previous studies. It may be the first research study in the field of contribution of income tax taking the comparative study of selected five commercial banks and financial institutions of Nepal.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

The different aspects of this thesis work regarding to income tax collection policy and practices at commercial banks viz. finance companies that have been mentioned in the previous chapters. An introduction relation to this thesis work is made in the first chapter and relevant literatures are reviewed in the second chapter. The ‘research methodology’, which is used to analyze for collected data, are mentioned in this chapter.

This chapter highlights about the methodology adopted in the processes of present study. It also focuses about sources and limitations of the data, which are used in the present study. ‘Research Methodology’ is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. So it is the methods, steps and guidelines, which are to be followed in analysis and it is a way presenting the collected data with meaningful analysis.

3.2 Research Design

The research entitled “Comparative study on income tax collection from commercial banks and finance companies”. The concerned both number, past phenomena as well as opinions. The collected data and information are described and analyzed by using some statistical tools. Thus, the study followed the descriptive as well as analytical research design.

The research design is of both descriptive and prescriptive nature. For the analytical purpose, the annual reports published by the relative banks and finance companies and other publication of the related banks published by Nepal Rastra Bank, Nepal Stock Exchange Ltd, and other related agencies are collected for the year 2001/02 to 2008/09. Also done survey through questionnaires distributed to various person to get their view over taxation.

3.3 Nature and Sources of Data Collection Procedure

The study is mainly based on secondary data, which are collected from their respective annual reports, especially from profit and loss accounts, balance sheet and other publications made by the banks. Likewise, some other related information is gathered from related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited, Ministry of Finance, National Planning Commission etc.

Numerical data and other information related to tax laws, development of taxation, administrative aspect and other tax figures are collected from secondary sources. The main sources of the secondary data are as follows:

- Published documents and annual reports of Nepal Rastra Bank.
- Published books, articles, unpublished thesis and dissertation on the concern subject area.
- Annual reports and statistical abstracts of Indian Revenue Department.
- Publication of Ministry of Finance i.e. Budget Speeches and Economic Surveys.
- Annual reports of commercial banks from fiscal year 2001/02 to 2008/09.
- Annual reports of finance companies from fiscal year 2001/02 to 2008/09.

3.4 Population and Sampling

At present, there are 27 commercial banks and 77 finance companies operating in Nepal. Due to time and resource factors, it was not possible to study all of them under this study. The samples selected are those banks which are established before 1996 AD and regularly earning profit from the fiscal year 2001/02 to 2008/09.:

1. Nepal Investment Bank Ltd
2. Himalayan Bank Ltd
3. Nepal Bangladesh Bank Ltd
4. Everest Bank Ltd
5. Bank of Kathmandu Ltd

The Samples selected are those Companies, which are established before 1996 AD and regularly profit earning companies form the fiscal year 2001/02 to 2008/09.:

1. NIDC Capital Market Ltd.
2. National Finance Company
3. Nepal Share Market Ltd
4. Peoples Finance Ltd
5. Kathmandu Finance Ltd

3.5 Method and Analysis

Some major statistical tools have been used to attain the objectives of this study .The pattern of available data is a major determinant to analyze the data. So analysis is done based on the pattern of available data. The available and attached data are properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used.

1. Mean or Average $= (\bar{X})$
2. Standard deviation (S.D.) $= (\sigma)$
3. Coefficient of Variation $= (C.V)$

(a) Arithmetic Mean or Average

An Average is a single value that represents a group of values. It shows the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items.

Thus,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\text{Or, } \bar{X} = \frac{\sum x}{N}$$

Where,

$\sum X$ = Sum of the size of the items

N = Number of items.

(b) Standard Deviation (S.D.)

Standard deviation is the positive square root of the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter σ (read as sigma) and is obtained as follows:

Thus,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

Where,

N = Number of items in the series

\bar{X} = Mean

X = Variable

The standard deviation measures the absolute dispersion or variability of a distribution, the greater the amount of dispersion or variability the greater the standard deviation, for the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series.

(c) Coefficient of Variation (C.V.)

Karl Pearson developed this measurement to measure the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the contrary, that series for which the coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation.

Thus,

$$\begin{aligned}\text{Coefficient of variation (C.V.)} &= \frac{SD}{Mean} \times 100 \\ &= \frac{\sigma \times 100}{X}\end{aligned}$$

Where,

σ = Standard Deviation

X = Mean

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with the presentation and analysis of secondary data related to different variables using statistical tools which are explained in third chapter “Research Methodology”. The basic objective of this chapter is to achieve the objectives, which are set in first chapter “Introduction”. In order to achieve these objectives, gathered data have been presented, compared and analyzed with the help of different tools. So it is the focal part of the study to analyze the comparative income tax collection from commercial banks and finance companies or income tax contribution to government revenue for economic development.

4.1 Structure of Nepalese Government Revenue

The government of any country of the world needs adequate budget for the development activities, operation of administration, maintaining peace and security and for other public welfare activities. The required budget is collected from various sources. Generally, the revenue collected by the government from various source is known as public revenue or national revenue.

Nepal collects its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes direct taxes as well as in direct taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect tax comprised the customs, excise, sales tax/VAT and others. On the other hand non-tax revenue is the composition of various kinds of receipts from foreign governments and international entities. The government revenue is therefore the combination of tax revenue and non-tax revenue consists of various sources.

Major sources of income of the government are custom duty, excise duty and sales tax or VAT under indirect tax group. Custom duties consist of export duty, import duty as well as excise, refund from government of Indian and other miscellaneous incomes. The

excise duty is the imposition of tax on the country's production which consists of liquor, tobacco and other industrial products. The other indirect taxes, which contribute a significant share in government revenue, are contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals and organizations' income or profit. Income tax is the composition of direct tax revenue that is levied upon net of income or profit earned by the public enterprises, semi-public enterprises, private corporate bodies, self-employed, individuals and employed persons. The house and land registration is also the part of direct tax.

Non-tax revenue of the government includes various registration fees, income received from sale of government services and products, dividend received, royalties, principle and interest received and miscellaneous incomes. The registration fees include firm registration vehicle registration and license registration etc. Water charges, telephone charges, postal service charges, revenue received from education and institutions, income from agriculture product, income from supply of product and incomes generate from transportation services are the major sources of revenue. Government receives dividends from financial institution, trading companies, industrial enterprises and service-oriented organizations run by the government under special public enterprises act. Similarly, royally from mine is also the non-tax revenue of the government.

Thus the tax revenue is the highly contributing source of total government revenue. But non-tax revenue has been also contributing in considerable rates among the other individual revenue items.

4.2 Contribution of Tax Revenue to the Total Revenue

National revenue is the composition of tax revenue and non-tax revenue. Tax revenue has also direct and indirect taxes. Customs, excise duty, sales tax/VAT and other miscellaneous incomes the main revenue items of indirect-tax revenue. Direct tax however is the composition of income tax, land tax, property tax, interest tax and other direct taxes. Not-tax revenue of the government is also important revenue source that

includes different types of fees, charges, dividend, royally and principle with interest from companies and co-operation, Sales of fixed assets and main are also component of non-tax revenue. Table 4.1 shows the comparison between tax revenue and non-tax revenue collection.

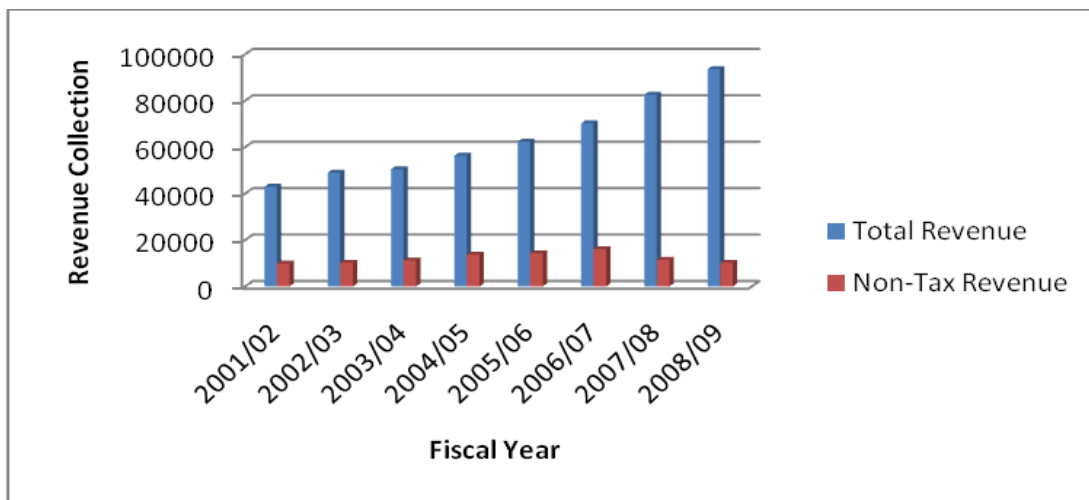
Table 4.1
Contribution of Tax Revenue to the Total Revenue

(Rs. in Million)

Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue on Total Revenue	Non-Tax Revenue	% of Non-Tax Revenue on Total Revenue
2001/02	42893.70	33152.10	77.29	9741.60	22.71
2002/03	48892.70	388653.90	79.49	10028.80	20.51
2003/04	50446.30	39331.30	77.97	11115.00	22.03
2004/05	56229.44	42587.00	75.74	13642.44	24.26
2005/06	62330.55	48172.50	77.29	14158.05	22.71
2006/07	70122.70	54104.70	77.16	16018.00	22.84
2007/08	82456.30	71047.2	86.16	11409.1	13.84
2008/09	93459.75	83355.4	89.19	10104.35	10.81

Source: Ministry of Finance, Annual Reports, 2008/09

Figure 4.1
Contribution of Tax Revenue to the Total Revenue



From the above table, it is clear that, the share of tax revenue is always greater than the share of non-tax revenue. Contribution from tax revenue is 75% to 89% and from non-tax

revenue is 10% to 24%. Hence contribution to income tax from tax revenue is greater by 60% in an average. In the fiscal year 2001/02, the share of total revenue was 77.29 percent and share of non-tax revenue was 22.71 percent. Likewise, in fiscal year 2002/03 the contribution of tax revenue was 79.49 percent whereas non-tax revenue was 20.51 percent. The tax revenue was 75.74 percent and non-tax revenue was 24.26 percent in the fiscal year 2004/05. In the fiscal year 2005/06 the share of total revenue was 77.29 percent and share of non-tax revenue was 22.71 percent. But the share of total revenue was sharply reduced which was 77.16 percent and the share of non-tax revenue was 22.84 percent in the fiscal year 2006/07. The percentage of tax revenue on total revenue was 86.16 and percentage of non-tax revenue on total tax revenue was 13.84 percent in 2005/06. Likewise, the percentage of tax revenue on total revenue was 89.19 and percentage of non-tax revenue on total tax revenue was 10.81 percent in 2008/09. It proves that tax revenue contributes as about three-quarters of total revenue. During the study period, we can conclude that the tax revenue and non-tax revenue was increasing trend but some time it was fluctuate.

4.3 Contribution of Direct Tax to Total Tax Revenue and Total Revenue

Tax revenue is divided into two classes; one is direct tax and other is indirect tax. A direct tax is such type of tax, which is imposed on a person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. This type of tax can not be realized by the tax payer from other persons. He must pay it from his own pocket. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax and others are the best examples of direct taxes. On the other hand, an indirect tax is such type of tax, which is imposed to any person without direct collecting from him. An indirect tax is imposed to any person without direct collecting from him. An indirect tax is imposed on one person but paid partly or wholly by another. Sales tax/VAT, entertainment tax, customs, excise duty are the good examples of this tax. Thus direct tax is any tax which is imposed to a person who bears its economic impact by himself. Indirect tax is imposed value added tax on goods sold, but the amount of VAT is collected from customers. Here tax is imposed to sales man however, the buyer pays tax indirectly.

Table 4.2

Contribution of Direct Tax to Total Tax Revenue and Total Revenue

(Rs. in Million)

Fiscal Year	Total Revenue	Total Tax Revenue	Direct Tax	% of Direct Tax on Total Revenue	% of Direct Tax on Total Tax Revenue
2001/02	42893.70	33152.10	8951.50	20.86	27.00
2002/03	48892.70	38865.39	10159.40	20.78	26.14
2003/04	50446.30	39331.30	10597.50	21.00	26.94
2004/05	56229.44	42587.00	10105.80	17.97	23.72
2005/06	62330.55	48172.50	11912.10	19.11	24.74
2006/07	70122.70	54104.70	13580.70	19.36	25.10
2007/08	82456.30	71047.20	13332.29	16.17	18.76
2008/09	93459.75	83355.40	14415.30	15.42	17.29

Source: Ministry of Finance, Annual Reports, 2008/09

Figure 4.2

Contribution of Direct Tax to Total Tax Revenue and Total Revenue

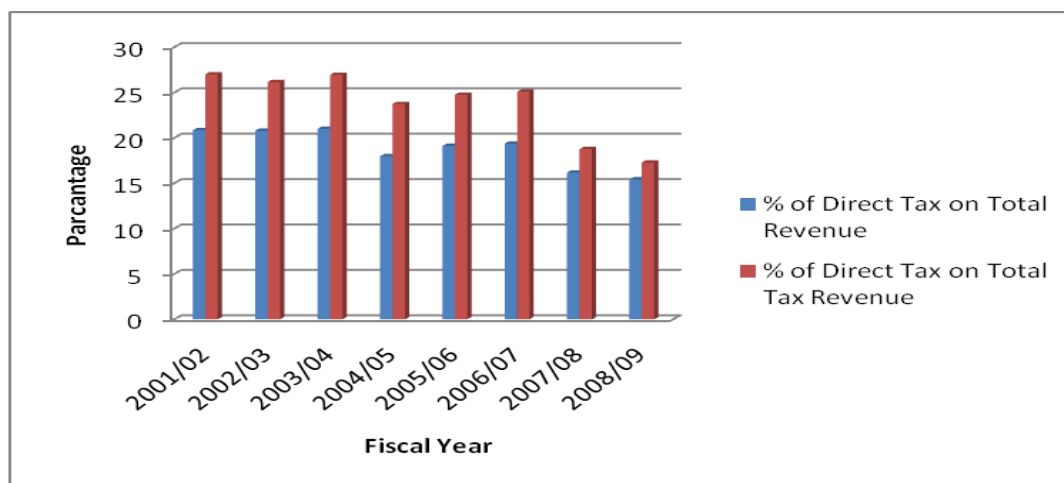


Table 4.2 shows the contribution of direct tax on tax revenue and total revenue of the government. This relationship is also presented in the figure No. 4.2. The initial share of direct tax on total revenue was 20.86 percent which was 27.00 percent on total tax revenue in the fiscal year 2001/02 in that year Rs. 8951.50 million was collected from the direct tax. Then after contribution percentage has been fluctuating order. In the fiscal year 2002/03, the share of direct tax on total revenue was 20.78 percent whereas it was 26.14

percent on total tax revenue. Similarly, it slightly went up to 21.0 percentages in the fiscal year 2003/04 in addition once again it decreased to 17.97 percent in the fiscal year 2004/05. The contribution of direct tax on total tax revenue, the corresponding years are 26.94 percent and 23.72 percent direct tax on total tax revenue. After that it was gradually increased which was 19.11 percent and 19.6 percent in the fiscal year 2005/06 and 2006/07 where as percent of direct tax on total tax revenue was 24.74 percent and 25.10 percent. And again it went down to 16.17 percent and 15.12 percent and after another in the fiscal year 2007/08 and 2008/09 and percent of direct tax on total tax revenue was 18.76 percent and 17.29 percent respectively in this fiscal year.

Thus, the interpretation shows that the trend of direct tax collection is positive i.e. it is increasing order although it decreased in the last few years. The reason behind of increasing was the increment of income tax collection and other direct taxes. The income tax collection has been increasing due to increasing number of tax-payers and their taxable revenue and profit. In conclusion, it can be said that the positive trend of direct tax denotes economic improvement of the nation even though the nation is in deep trouble in these days due to economic crises.

4.4 Structure of Income Tax Revenue in Nepal

Income tax is levied on net taxable income. This means that not all income accrued from source brought to the income tax net are taxable. Individual as well as organization having taxable income pay income tax. Both are persons as mentioned by income tax Act 2002. The tax levied upon individual is known as personal income tax where as income tax levied to organization is called corporate tax. The government, therefore, imposes income tax upon the person (individuals, firms and companies) earning taxable incomes, without direct benefit to them.

Income tax Act 2002 has clearly defined the related rules and areas of tax. It has defined the tax head for computation of tax liabilities. According to this law, three income headings including various receipts are mentioned as follows:

1. Income from Business: This head of income includes income and profit from industry, business and from other business transactions, professional fees, service fees, sales proceeds of business stocks, amount received from disposal of depreciable assets business gifts, receipts from business restriction and receipts of amount from directly related to business.

2. Income for Employment: This head of income includes various receipts. They are wages, salaries, allowances, fees, commission, award, gift, bonus and other facilities. The other facilities include additional payments for Dashain, housing facility, vehicle facility and telephone facility and so on. Similarly, dearness allowance, house rent, entertainment, transportation and cost of living expenses are also the remuneration such as retirement contribution and other amount prescribed by income tax Act are the subject to tax.

3. Income from Investment: The third head of income is investment income which includes various incomes received by investing assets in any business sector. They are dividend, interest, rent receipts, receipts from investment insurance, gain from unrecognized retirement fund. It also includes proceeds from sale of non-business assets. Capital gains from disposal of depreciable assets, gifts received in relation with investment, amount received in the acceptance of restriction of investment and others.

Thus, taxable income is the composition of above mentioned various income sources. Income tax is divided in into two types in broad since Viz. personal income tax and corporate income tax. Both have different income sources. Corporate tax is a composition of three tax payers. They are government enterprises, public limited company and private limited company. Individual income tax includes income tax from remuneration, industries trade and profession of individual. Besides these, rent and interest taxes are also includes in income tax.

4.5 Role of Corporate Tax in Nepal

Corporate tax a part of total income tax, is also very important in the developing countries .People of such countries are not capable to pay individual income tax due to being less income earners .In this situation income tax from corporate bodies plays vital role in resources mobilization in the nation, if there are more industries are in operating . The other positive points of corporate tax are that they are easily identifiable and keep accounts in proper way. They do not escape from tax liability and practice tax evasion that is done by individual tax payers, but unfortunately, Nepal is not able to increase industries in the country. Some government enterprises are privatized. Out of them, most are not in operation and private Ltd. May practice of tax to the government .There are only limited numbers of corporate bodies in the country .Their economics performance is also very low because of these two reasons the contributions of corporate tax to the government treasury is not much satisfactory in Nepal even though its contribution percentage is high in total income in Nepal.

Table 4.3
Contribution to Corporate Tax in Total Income Tax

(Rs. in Million)

Fiscal Year	Total Income Tax	Corporate Tax	% of Total Income Tax
2001/02	6170	3460	56.08
2002/03	7420	4440	59.84
2003/04	9110	5990	65.75
2004/05	8919.68	4371.21	49.01
2005/06	8059.57	3655.55	45.36
2006/07	9414.78	4838.69	51.39
2007/08	10619.52	5623.24	52.95
2008/09	11569.72	6125.35	52.94

Source: Ministry of Finance, Annual Reports, 2008/09

Figure 4.3

Contribution to Corporate Tax in Total Income Tax

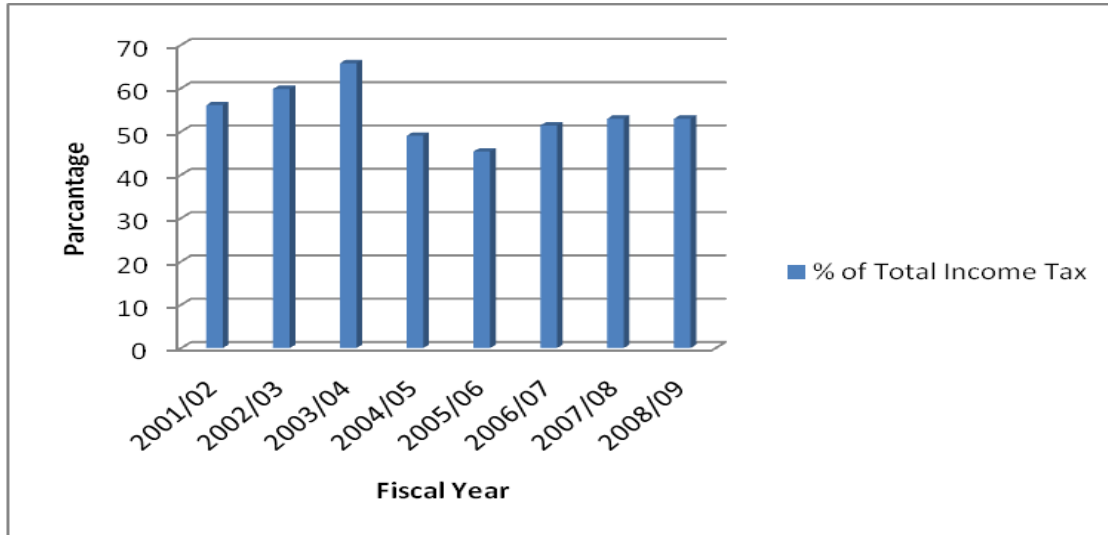


Table 4.3 shows the contribution of corporate tax on total income tax in the fiscal year 2001/02 which was 56.08 percent. Then after Contribution to Corporate tax in Total Income tax is fluctuation trend.

4.6 Corporate Tax on Government Revenue

Resource mobilization through income tax is very important instrument in Nepal. There are existing trade deficit and resource gap each year, that's way government has to borrow foreign loans. For the improvements of these constraints, the government must be able to increase its internal resources. Income tax as the component of internal resources has been contributing in the government revenue in the increasing trend. But it is also not as improved as expected due to various reasons; such as weakness on income tax administration, lack of tax morality in taxpayers, defects in income tax provisions and illegal business activities are primarily responsible for insufficient realization of income tax revenue in Nepal.

Corporate tax, the part of income structure, is also very important resource of revenue in developing countries like Nepal. Corporate bodies do not escape from tax liabilities in general. They maintain the books of accounts in accepted formats, audited their accounts

and pay taxes in due date. However, in Nepal most of government enterprises manipulate the accounts; their financial performances are also bad. On the other hand, family managed private companies practice tax evasion. These are the drawbacks of corporate practices tax realization in Nepal. It has many problems relating to income tax collection. The corporate tax has been contributing 7.86 percent of total government service in an average. From the fiscal year 2001/02, the contribution of corporate tax in government revenue has been increasing each year. It reached to 11.87 percent in the year 2003/04. But in the fiscal year 2004/05, it decreased to 7.77 percent from the previous rate of 11.87 percent. It again decreased to 5.86 percent in the fiscal year 2005/06, but it increased to 6.90 percent and it decrease to 6.81 percent in the fiscal year 2006/07 and 2007/08 respectively. Finally, it was sharply reduced to 6.55 percent in the fiscal year 2008/09. This is clearly showed in table No. 4.4 below

Table 4.4
Corporate Tax on Government Revenue

(Rs. in Million)

Fiscal Year	Govt. Revenue	Corporate Tax	Corporate Tax as Percent of Govt. Rev
2001/02	42893.70	3460	8.06
2002/03	48892.70	4440	9.08
2003/04	50446.30	5990	11.87
2004/05	56229.44	4371.21	7.77
2005/06	62330.55	3655.55	5.86
2006/07	70122.70	4838.69	6.90
2007/08	82456.30	5623.24	6.81
2008/09	93459.75	6125.35	6.55

Source: Ministry of Finance, Annual Reports, 2008/09

Nepal has only limited number of corporate bodies. The increment of corporation is very low. In the other bend, the government enterprises have been privatizing from the year 1993. Twenty four enterprises had been privatizing during 14 years as the prime function of economic liberalization policy of the government. Out of these some enterprises are overshadow. This causes the decrease the number of corporate taxpayers. Similarly, the increment of public limited companies also is not satisfactory.

4.7 Corporate Tax Collection from Commercial Banks

Commercial banks are public limited companies, which are established under commercial bank act – 1974 and company Act – 1996. Before 1986 AD, there were only two commercial banks; such as Nepal Bank Ltd. and Rastriya Banijya Ltd. in the country. The first joint venture bank named Nepal Arab Bank Ltd. was established and now there are 27 commercial banks in operation in the nation. They deal monetary and credit activities; accept deposits and lend loan create credit and exchanges the foreign currencies and provide many other services. By performing these activities, they make profits oriented organizations. They pay taxes from profit. Since they are profit according to income tax Act.

The table 4.5 is the list of corporate tax paid by various commercial banks for the last 8 years (i.e. from the fiscal year 2001/02 to 2008/09) According to this table; Himalayan Bank Ltd. is a high corporate tax paying commercial bank. The average tax paid by this bank is Rs. 144.69 million. Most of commercial banks listed in the table have been paying corporate tax in increasing order. In the beginning year i.e. 2001/02 about Rs. 191.87 million taxes was collected from commercial banks. In that year, Himalayan Bank Ltd. was in the first position and Nepal Investment Bank Ltd. was stood in the second position. In the same year, the Bank of Kathmandu Ltd had contributed very low share i.e. Rs. 8.86 million where as Everest Bank Ltd. had paid Rs. 13.46 million and Nepal Bangladesh Bank Ltd had paid Rs. 40.76 million. Himalayan Bank Ltd. was in the first position in corporate tax paying from the fiscal year 2001/02 to 2008/09. In the fiscal year 2001/02, it has contributed tax Rs. 191.87 Million and in 2002/03 it was Rs 263.59 million. In fiscal year 2003/04, it had contributed high corporate tax collection year from that sector about Rs. 314.83 million. In the fiscal year 2004/05, it had contributed low corporate tax collection than that first, second and third fiscal year that was 257.05 million.

The fiscal year 2005/06 was a good year to all economic sectors. In that year, the type of tax collection was increased than the previous years. As the same case, all commercial banks have paid high corporate tax than in previous years. In that year, Rs. 402.94

million taxes were collected from commercial banks. After the fiscal year 2005/06 it had been in increasing order for the three years. In the fiscal year 2006/07, it increased to Rs. 493.32 million. In the year, Himalayan Bank Ltd. was in the first position, Nepal Bangladesh bank was in the second position and Nepal Investment Bank Ltd. was the third position which are Rs. 150.00 million, Rs 140.00 million and Rs 78.80 million respectively. In the fiscal year 2007/08, it highly increased to Rs. 607.60 million. In that year also Himalayan Bank Ltd. was in the first position, Nepal Bangladesh Bank Ltd. was stood in the second position and Nepal Investment Bank Ltd. was in third position which are Rs. 189.16 million, Rs. 160.67 million and Rs. 108.30 million respectively. In the fiscal year 2008/09, it highly increased up to Rs, 703.60 million. In that year also Himalayan Bank Ltd was in the first position, Nepal Bangladesh Bank was in the second position and Everest Bank Ltd was in third position which are Rs 201.60 million, Rs 188.70 million and Rs 120.40 million respectively. According to this table, it can be viewed that the tax paying from this sector was in increasing order.

Table 4.5
Corporate Tax Collection from Selected Commercial Banks

S.N.	Commercial Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
1	Nepal Investment Bank Limited	42.57	33.23	37.44	21.01	53.33	78.8	102.30	120.3
2	Himalayan Bank Limited	86.22	114.32	154.32	114.02	147.89	150.00	189.16	201.6
3	Nepal Bangladesh Bank Limited	40.76	64.16	85.18	35.00	120.00	140.00	160.67	188.7
4	Everest Bank Limited	13.46	19.51	32.23	42.46	41.71	67.55	95.23	120.4
5	Bank of Kathmandu Limited	8.86	32.37	32.66	44.56	40.01	57.17	60.24	72.6
Total		191.87	263.59	341.83	257.05	402.94	493.52	607.60	703.6

Source: Annual Reports of Relevant Commercial Banks (2001/02 to 2008/09)

Note:

- i. Tax amount = Tax Provision from P/L Account + Tax Adjustment of Last Year
- ii. Tax amount = Pre-Tax Profit – After-Tax Profit

Table 4.6 shows the average corporate tax payments made by selected commercial banks with standard deviation and coefficient of variation of tax payments. As shown by this table, Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd. are top two corporate taxpayers in commercial Banks. The coefficient of variation demonstrates the variation of paying of corporate tax from the central tendency i.e. mean payment. As per the same table, the Himalayan Bank Ltd. has less C.V. i.e. 25.19 percent. It means that its corporate tax paying was very close to the average payment than others. Nepal Everest Bank Ltd has highest C.V. i.e. 61.68 percent that is way it has high volatile in income taxpaying.

Table 4.6
Average Corporate Tax Collection from Selected Commercial Banks (with Standard Deviation and Coefficient of Variation)

S.N.	Commercial Banks	Mean Payment of Corporate Tax	Standard Deviation of Payment	Coefficient of Variation
1	Nepal Investment Bank Limited	61.12	33.28	54.45 %
2	Himalayan Bank Limited	144.69	36.45	25.19 %
3	Nepal Bangladesh Bank Limited	104.31	53.20	51.00 %
4	Everest Bank Limited	54.07	33.51	61.68 %
5	Bank of Kathmandu Limited	43.55 %	18.60	42.71%

Source: Appendix I of this Report

In conclusion, the corporate tax collection from commercial banks is also in the increasing order. The Himalayan Bank Ltd. has been contribution higher tax but the C.V. of this bank is very low than others. It means that its payment is closed to average payments.

4.8 Contribution of Corporate Tax Collection from Commercial Banks to Total Tax Revenue and Revenue of Government

The table 4.7 is presented below which shows the contribution percentage of corporate tax collected from commercial banks in total tax revenue and in total government revenue for the last eight years. According to the table, the contribution of corporate tax collected from commercial banks was between 0.44 percent to 0.75 percent and 0.60 percent to 0.91 percent on total government revenue and total tax revenue respectively.

Table 4.7

Contribution of Income Tax Paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue

(Rs. in Million)

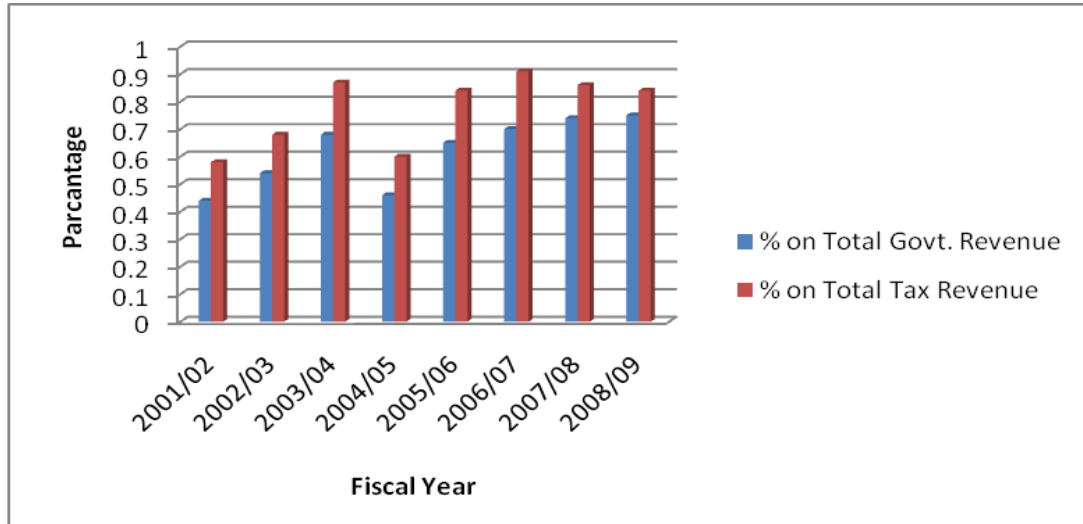
Fiscal Year	Total Govt. Revenue	Total Tax Revenue	Corporate Tax Collected from C.B.	% on Total Govt. Revenue	% on Total Tax Revenue
2001/02	42893.70	33152.10	191.87	0.44	0.58
2002/03	48892.70	38865.10	263.83	0.54	0.68
2003/04	50446.30	39331.30	341.83	0.68	0.87
2004/05	56229.44	42587.00	257.05	0.46	0.60
2005/06	62330.55	48172.50	402.95	0.65	0.84
2006/07	70122.70	54104.70	493.52	0.70	0.91
2007/08	82456.30	71047.20	607.60	0.74	0.86
2008/09	93459.74	83355.40	703.6	0.75	0.84

Source: Ministry of Finance, Annual Reports, 2008/09, Annual Reports of Commercial Banks

2008/09

Figure 4.4

Contribution of Income Tax Paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue



From the same table, it can be said that the contribution percentage of tax payment made by commercial banks has been increasing. It was 0.44 percent in the total revenue and 0.58 percent in total tax revenue in the beginning (i.e. in the fiscal year 2001/02) and continuously increased up to 0.68 percent and 0.87 percent in the same base in fiscal year 2003/04. But it decreased to 0.46 percent from 0.68 and 0.60 percent from 0.87 percent in the fiscal year 2004/05. The reasons behind the increasing contribution of banking sector to tax is increasing loans, advances and overdraft and commercial banks, more profits and branch extension in the different parts of Nepal. However, in the fiscal year 2004/05, the economic situation was adversely affected due to the state of emergency in the country and political instability. That is the reason the commercial banks paid low corporate tax than preceding years. In the fiscal year 2005/06, it slightly increased to reach 0.65 percent and 0.84 percent in the total revenue and total tax revenue respectively. Then, it again increased to 0.70 percent and 0.91 percent in the fiscal year 2006/07. Due to the favorable economic situation in the fiscal year 2007/08 the contribution percentage has been again increased to 0.74 percent and 0.86 percent in the total revenue and total tax revenue respectively. Finally, the percentage on total

government revenue was 0.75 and percentage on total tax revenue was 0.84 respectively in the fiscal year 2008/09.

4.9 Contribution of Income Tax Collection from Commercial Banks in Corporate Tax and Total Income Tax

This part of analysis also shows the contribution percentage of the corporate tax collected from commercial banks in total corporate tax and in total income tax realized. Table 4.8 and chart 4.5 express this percentage. According to this table and chart, the contribution of corporate tax collected from commercial banks was 3.12 percent and 5.55 percent in the fiscal year 2001/02 in total income tax and total corporate tax realized by the government respectively. In that year about Rs. 191.87 million was collected as corporate tax from commercial banks. It was increased up to 3.55 percent and 5.94 percent from 3.12 percent and 5.55 percentage in the fiscal year 2002/03 in total income tax and total corporate tax respectively. Then after, these percentages slightly came up to 3.75 percent on total income tax but slightly came down to 5.71 percent on corporate tax in the fiscal year 2003/04. However, the corporate tax from commercial banks in total income tax decreased to 2.88 percent in the fiscal year 2004/05. During the same year, it was 5.88 percent in total corporate tax was increased than previous year. In the fiscal year 2005/06 it a little increased to 5.00 percent and 11.02 percent in total income tax and total corporate tax respectively. In the fiscal year 2006/07, total income tax increased to 5.19 percent but total corporate tax decreased to 10.20 percent. Then after, these percentages again increased in the fiscal year 2007/08 by 0.53 percent and 0.61 percent in total income tax and total corporate tax respectively. It reaches up to 5.72 percent total income tax and 10.81 percent in total corporate tax in the fiscal year 2007/08. Finally, it is clearly increased to 6.08 percent and 11.49 percent on total income tax and total corporate tax in the fiscal year 2008/09 respectively.

Table 4.8
Contribution of Income Tax Collection from Commercial Banks to the Total
Income Tax and Corporate Tax

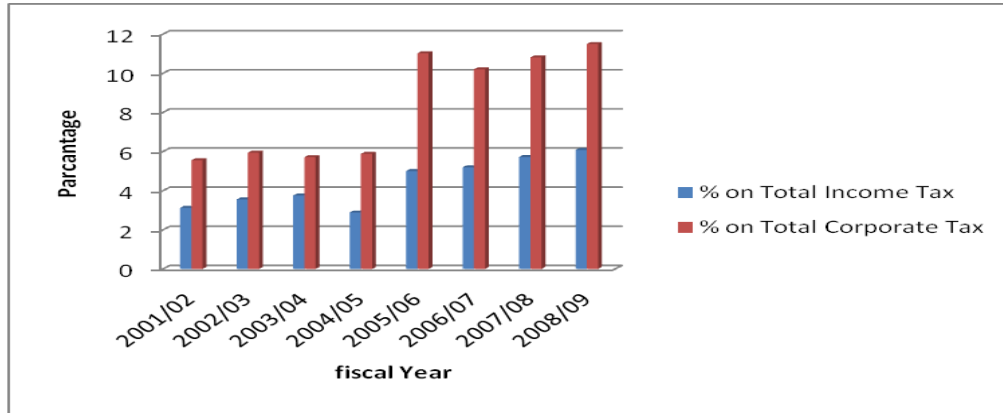
Fiscal Year	Total Income Tax	Total Corporate Tax	Corporate Tax Collected from V.B.	% on Total Income Tax	% on Total Corporate Tax
2001/02	6170	3460	191.87	3.12	5.55
2002/03	7420	4440	263.59	3.55	5.94
2003/04	9110	5990	341.83	3.75	5.71
2004/05	8919.68	4371.21	257.05	2.88	5.88
2005/06	8059.57	3655.55	402.95	5.00	11.02
2006/07	9514.78	4838.69	493.52	5.19	10.20
2007/08	10619.52	5623.24	607.60	5.72	10.81
2008/09	11569.72	6125.35	703.60	6.08	11.49

Source: Ministry of Finance, Annual Reports, 2008/09, Annual reports of Commercial Banks (2001/02 to 2008/09)

Thus, as shown by table, the contribution percentage of corporate tax from commercial banks was increase order, although it was slightly decreased in the fiscal year 2004/05. However, percentages of total income tax and corporate tax was sometimes increased and sometimes slightly decreased during past seven years but they are also increasing order. Non-auditing of accounts and failure to make profits by some commercial banks are responsible for less realization of corporate tax from that sector during the study period. Other major factors are instability of government and political conflict in the country that directly affected the economic environment of the nation. Although there are many obstacles but corporate tax seemed to be increasing order.

Figure 4.5

Contribution of Income Tax Collection form Commercial Banks to the Total Income Tax and Corporate Tax



4.10 Relationship of Corporate Tax and Tax Collected from Commercial Banks with Gross Domestic Product

The corporate tax and tax collected from finance companies to GDP are shown in the table 4.9. Gross domestic product (GDP) means the value of goods and services produced within the nation. If it is represented in the incomes of the factor of production, it is known as GPD at factor cost, where as it is known as GDP at market price of goods and services are charged at ruling prices. Prices include all taxes on expenditure subsidies being regarded as negative taxes. For the analysis, GDP at market prices is taken as base. As shown by table 4.9, the contribution percentage of there two taxes have been very low in GDP both have been increasing.

Table 4.9
Relationship of Corporate Tax Collected from Commercial Banks with Gross Domestic Product

(Rs. in Million)

Fiscal Year	GDP	Growth Rate	Corporate Tax	Corporate Tax Collection from C.B.	Corporate Tax as Percent of GDP	Corporate Tax from C.B. as Percent of GDP
2001/02	330018	12.19	3460	191.87	1.05	0.06
2002/03	366251	9.89	4440	263.59	1.21	0.07
2003/04	393566	6.94	5990	341.83	1.52	0.09
2004/05	404482	2.70	4371.21	257.05	1.08	0.06
2005/06	428476	5.60	3655.55	402.95	0.85	0.09
2006/07	472424	9.30	4838.69	493.52	1.02	0.10
2007/08	504100	6.28	5623.24	607.60	1.12	0.12
2008/09	625301	5.68	6125.35	703.60	0.98	0.11

Source: Ministry of Finance, Annual Reports, 2008/09, Annual Reports of Commercial Banks (2001/02 to 2008/09).

In the fiscal year 2001/02 the GDP was Rs. 330018 million. The shares of corporate tax and corporate tax collected from commercial banks to the GDP are only 1.05 percent and 0.06 percent respectively in the same year. After fiscal year 2001/02, the growth rate of GDP fell down to 9.89 percent and in the fiscal year 2003/04 decreased by 2.95 percent which reached to 2.70 percent in the fiscal year 2004/05. During that period, the percentage of corporate tax and tax collected from commercial banks was increased. The percent of corporate tax on GDP was 1.08 percent and that was 0.06 of corporate tax collected from commercial banks. The percentage of corporate tax on GDP was 0.85 percent and that was 0.09 percent of corporate tax collected from commercial banks in the fiscal year 2005/06. But it slightly increased in the fiscal year 2006/07 and 2007/08 which was 1.02 percent and 1.12 percent on corporate tax on GDP and that was 0.10 percent and 0.12 percent of corporate tax collected from commercial banks. Finally, corporate tax on GDP and corporate tax from commercial banks was sharply decreased in the fiscal year 2008/09 which was 0.98 percent and 0.11 percent respectively.

As per table, it can be viewed that share of corporate tax as well as tax from commercial banks on GDP were very low. Their increment was minimum. The fiscal year 2004/05 was bad to the nation due to various reasons. In that year, the growth of GDP also was very low. The share of corporate tax on GDP reached to 1.52 percent (highest rate) in the fiscal year 2003/04 in the same year the contribution of tax from commercial banks on GDP was only 0.09 percent.

4.11 Corporate Tax Collection from Finance Companies

Finance companies are established under Finance Company Act 2042. After 2048 B.S., four finance companies are established in 2049 which are Nepal Housing Development Finance Co. Ltd., Nepal Finance and saving Co. Ltd., NIDC Capital Markets Ltd and National Finance Company Ltd. They deal monetary and credit activities, accept deposits and lend loan, create credit and hire purchase function and work as a merchant bank. By performing these activities, they make profits. Since they are profit-oriented organizations, they pay taxes from profit according to income tax Act.

Table 4.10 is the list of corporate tax paid by various finance companies for the last eight years (i.e. from fiscal year 2001/02 to 2008/09). According to the above presented , table, the National Finance Co. Ltd and NIDC Capital Market Ltd are the highest corporate taxpaying among the various finance companies. The average tax paid by these finance companies is Rs. 7.17 million and Rs. 5.60 million respectively. In the table most of finance companies have been paying corporate tax in fluctuation. In the beginning year 2001/02 about Rs. 12.24 million taxes was collected from finance companies. In that year, National Finance Co. Ltd was stood in strong position than other companies. The table has been shown the contribution of finance companies in the corporate tax was in increasing order from fiscal 2001/02 to 2003/04 which was increased from Rs. 12.24 million to Rs. 17.65 million. In the fiscal year 2004/05 it was decreased to Rs. 17.39 million but in 2005/06 it was sharply increased to Rs. 25.59 million. Then again, it was decreased to Rs. 22.58 million in the fiscal year 2006/07 but it was slightly increased to Rs. 23.81 million in the fiscal year 2007/08 and similarly, it was clearly increased to 25.60 million in the fiscal year 2008/09. In conclusion, we can say that total corporate tax

collections from finance companies are fluctuated during eight years, which is presented by the help of table No 4.10 below.

Table 4.10
Tax Collection from Selected Finance Companies

(Rs. in Million)

S.N.	Finance Companies	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
1	National Finance Co. Ltd.	5.37	6.23	6.78	5.84	10.70	6.95	7.56	7.92
2	NIDC Capital Market Ltd.	2.33	4.96	4.61	5.81	7.19	6.97	6.04	6.90
3	Nepal share Market Ltd.	0.95	0.45	1.18	0.34	3.91	3.40	4.12	4.21
4	People Finance Ltd.	1.84	2.01	2.38	1.80	0.04	1.50	2.30	2.45
5	Kathmandu Finance Ltd.	1.75	2.55	2.70	3.60	3.75	3.76	3.79	4.12
Total		12.24	16.20	17.65	17.39	25.59	22.58	23.81	25.60

Source: Annual Report of Relevant Finance Companies (2001/02 to 2008/09)

Tax amount = Tax Provision from P/L Account + Adjustment of Last Year

Tax Amount = Pre-Tax – After-Tax Profit

Table 4.11 shows the average corporate tax collected from selected financial companies with standard deviation and coefficient of variation of tax collection. As shown by this table, National Finance Co. Ltd., NIDC Capital market Ltd and Katmandu Finance Limited are the top three corporate tax payers among the finance companies. The coefficient of variation demonstrates the variation of paying of corporate tax from the central tendency i.e. mean payment. As per the same table, National Finance Co. Ltd. has less C.V. i.e. 21.62 percent. It means that its corporate tax paying is very close to the average payment than others. Nepal share Markers Limited has highest C.V. which shows it has high volatile in income tax paying.

Table 4.11

Average Corporate Tax Collected from Selected Finance Companies (with Standard Deviation and Coefficient of Variation)

(Rs. in Million)

S.N.	Finance Companies	Mean Payment of Corporate Tax	S.D. of Payment	C.V.
1	National Finance Co. Ltd.	7.17	1.55	21.61%
2	NIDC Capital Market Ltd.	5.60	1.52	27.14%
3	Kathmandu Finance Ltd	3.25	0.77	23.69%
4	Nepal Share Market Ltd.	2.32	1.63	69.83%
5	People Finance Ltd.	1.79	0.73	40.78%

Source: Appendix II of this Report

In conclusion, the corporate tax collection from selected finance companies is also in the increasing order. The National Finance Co. Ltd. has been contribution higher tax but the CV of this company is very low than others. It means that its payment is closed to average payments.

4.12 Contribution of Corporate Tax Collection from Finance Companies to Total Tax Revenue and Revenue of Government

The table 4.12 is presented below which shows the Contribution of Corporate tax Collection from Finance Companies to Total tax Revenue and Revenue of Government. According to the table, the contribution of tax collection from finance companies is between 0.029 percent to 0.041 percent and 0.037 percent to 0.053 percent on total government revenue and total tax revenue respectively. The realization of tax from finance companies in fiscal year 2008/09 was Rs. 25.60 million, which contributed 0.041 percent in total government revenue. In the same year its contribution on total tax revenue was 0.053 percent which was also highest than in other years.

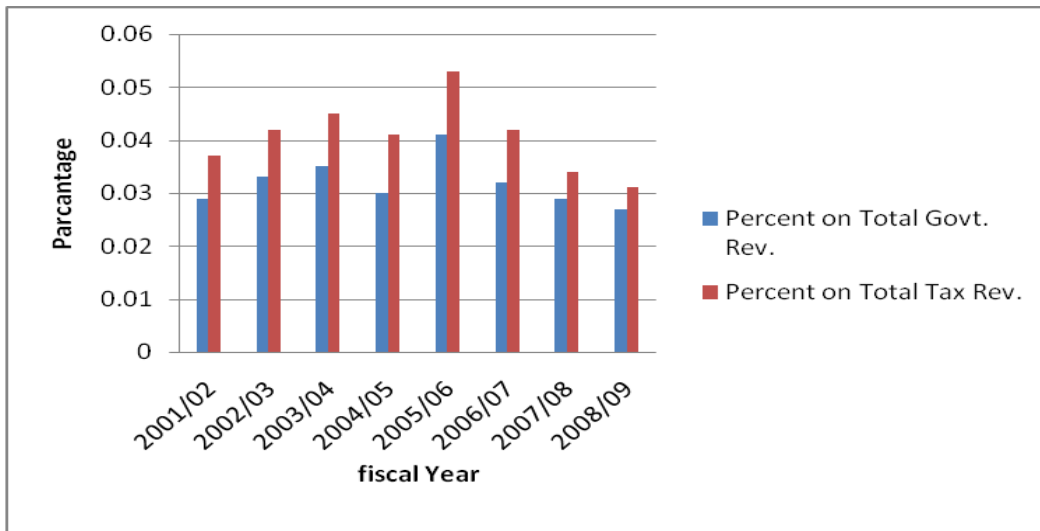
Table 4.12
Contribution of Corporate Tax Paid by Finance Companies to Total Government
Revenue and Total Tax Revenue

(Rs. in Million)

Fiscal Year	Total Govt. Rev.	Total Tax Revenue	Corporate Tax Collected from F.C.	Percent on Total Govt. Rev.	Percent on Total Tax Rev.
2001/02	42893.70	33152.10	12.24	0.029	0.037
2002/03	48892.70	38865.10	16.20	0.033	0.042
2003/04	50446.30	39331.30	17.74	0.035	0.045
2004/05	56229.44	42587.00	17.39	0.030	0.041
2005/06	62330.55	48172.50	25.59	0.041	0.053
2006/07	70122.70	54104.70	22.58	0.032	0.042
2007/08	82456.30	71047.20	23.81	0.029	0.034
2008/09	93459.75	83355.40	25.60	0.027	0.031

Source: Ministry of Finance, Annual Reports, 2008/09, Annual Reports of Finance Companies (2001/02 to 2008/09).

Figure 4.6
Contribution of Income Tax Paid by Finance Companies to Total Government
Revenue and Total Tax Revenue



From the same table, it can be said that the contribution percentage of tax payment made by finance companies has been increasing till the fiscal year 2003/04. Then after, it was fluctuating slightly till the fiscal year 2007/08 on total government revenue but it was

increased continuously to 0.06 percent till 2005/06 and decreased to 0.05 percent in the fiscal year 2007/08 on total tax revenue. The reasons behind the increasing contribution of finance sector to tax are increasing loans, advances, over draft, hire and purchase of finance companies, more profits and branch extension in the different parts of Nepal.

However, in the fiscal year 2004/05 and 2006/07 the economic situation was adversely affected due to the state of emergency in the political instability. In the same condition, due to the political situation financial sector investment was decreased that way contribution was worst decreased in the subsequence year up to 2008/09. That is the reason the finance companies paid low corporate tax than preceding years.

4.13 Contribution of Income Tax Collected from Finance Companies in Corporate Tax and Total Income Tax

This part of analysis also shows the contribution percentage of the corporate tax collected from finance companies in total corporate tax and in total income tax realized. Table 4.13 and chart No. 4.7 has demonstrated this percentage. According to this table and chart, the contribution of corporate tax collected from finance companies was 0.20 percent to 0.35 percent in the fiscal year 2001/02 on total income tax and total corporate tax realized by the government respectively. In that year about Rs. 12.24 million was collected as corporate tax from finance companies. The percentage was 0.20 percent in the fiscal year 2001/02. Then after, it was fluctuated each year and it was reached to 0.22 percent in the fiscal year 2007/08. However the corporate tax from finance companies in total income tax decreased to 0.22 percent in the fiscal year 2007/08. During the same year it was 0.42 percent in total corporate tax was also lower than that is earlier years. Similarly, in the fiscal year 2008/09 same events are repeated.

Table 4.13

Contribution of Income Tax Paid by Finance Companies to Total Income Tax and Corporate Tax

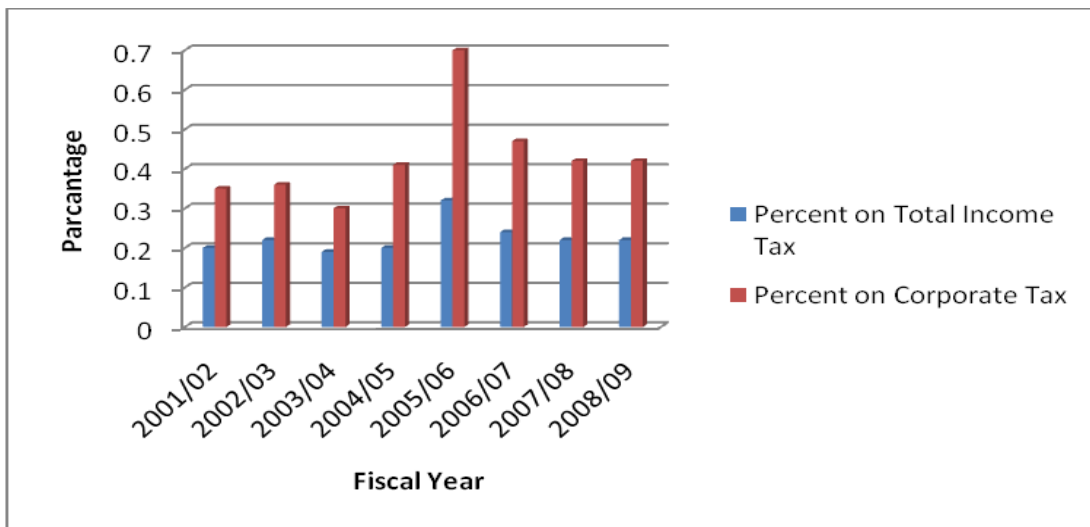
(Rs. in Million)

Fiscal Year	Total Income Tax	Corporate Tax	Corporate Tax Collected from F.C.	Percent on Total Income Tax	Percent on Corporate Tax
2001/02	6170	3460	12.24	0.20	0.35
2002/03	7420	4440	16.20	0.22	0.36
2003/04	9110	5990	17.74	0.19	0.30
2004/05	8919.68	4371.21	17.74	0.20	0.41
2005/06	8059.57	3655.55	25.59	0.32	0.70
2006/07	9514.78	4838.69	22.58	0.24	0.47
2007/08	10619.52	5623.24	23.81	0.22	0.42
2008/09	11569.12	6125.35	25.60	0.22	0.42

Source: IRD, Annual Reports (2006/07 and 2007/08), Annual Reports of Finance Companies (2001/02 to 2008/09).

Figure 4.7

Contribution of Income Tax Paid by Finance Companies to Total Income Tax and Corporate Tax



Thus, as shown by that table, the contribution of corporate tax from finance companies was increasing till the fiscal year 2005/06 from the fiscal year 2001/02 and then slightly

decreased. The fiscal year 2005/06 had the highest income tax realization from finance companies about Rs. 25.59 million out of 3655.55 million total corporate taxes collected. Then after, the total income tax percentage and corporate tax percentage was decreasing. Non-auditing of accounts and failure to make profits by some finance companies, are responsible for less realization of corporate tax from that sector during the study period. Other major factors are instability of government and political conflict in the country that directly affected the economic environment of the nation.

4.14 Contribution of Corporate Tax and Tax Collection from Finance Companies with Gross Domestic Product

The corporate tax and tax collected from finance companies to GDP are shown in the table 4.14. In the fiscal year 2001/02, the GDP was 330018 million. The shares of corporate tax and corporate tax collected from finance companies the GDP are 1.05 percent and 0.004 percent respectively in the same year. The growth rate of GDP fell down by 2.3 percent in the fiscal year 2002/03 but the contribution of corporate tax on GDP increased by 0.16 percent whereas tax from finance companies shows constant that means it was same as previous year i.e. 0.004 percent. After the fiscal year 2002/03, the growth rate GDP again fell down by 2.95 percent in the fiscal year 2003/04. During that period, the contribution of corporate tax and tax collected from finance companies are increased which was 1.52 percent and 0.005 percent. In the fiscal year 2004/05, corporate tax on GDP decreased by 0.58 percent but corporate tax from finance companies on GDP decreased by 0.001 percent in that period. Corporate tax on GDP was slightly decreased by 0.09 percent which reached to 0.85 percent in the fiscal year 2005/06 but corporate tax collected from finance companies was increased to 0.006 percent. In the fiscal year 2006/07 it was quite opposite, that's mean corporate tax on GDP was increased and corporate tax from finance companies was decreased than previous year. Then after, in the fiscal year 2007/08 corporate tax on GDP was again increased to 1.12 percent but corporate tax from finance companies was constant to 0.005 percent then after corporate tax from financial company's GDP was decreased to 0.004 percent and GDP on corporate tax was decreased to 0.98 percent in fiscal year 2008/09.

Table 4.14
Relationship of Corporate Tax and Collection from Finance Companies with Gross Domestic Product

(Rs. in Million)

Fiscal Year	GDP	Growth Rate Percent	Corporate Tax	Corporate Tax Collection from F.C.	Corporate Tax as Percent of GDP	Corporate Tax from F.C. as Percent of GDP
2001/02	330018	12.19	3460	12.24	1.05	0.004
2002/03	366251	9.89	4440	16.20	1.21	0.004
2003/04	393566	6.94	5990	17.74	1.52	0.005
2004/05	464482	2.70	4371.21	17.39	0.94	0.004
2005/06	428476	5.60	3655.55	25.59	0.85	0.006
2006/07	472424	9.30	4838.69	22.58	1.03	0.005
2007/08	505100	6.28	5623.24	23.81	1.12	0.005
2008/09	625301	5.68	6125.35	25.60	0.98	0.004

Source: Ministry of Finance, Economic Surveys (2006/07 and 2008/09) IRD, Annual Report (2008/09), Annual Reports of Finance Companies (2001/02 to 2008/09).

As per the table, it can be viewed that share of corporate tax as well as tax from finance companies on GDP was very low. Their increment was also minimum. The fiscal year 2004/05 was bad to nation due to various reasons. In this year, the growth of the GDP is very low. The share of corporate tax on GDP reached to 1.52 percent (highest rate) in the fiscal year 2003/04. In the same year, the contribution of tax from finance companies on GDP was only 0.005 percent. In the fiscal year 2005/06, the share of corporate tax on GDP is very low which was 0.85 percent but in the same year the corporate tax from finance companies was 0.006 percent which was highest.

4.15 Contribution of Tax Collection from Commercial Banks and Finance Companies on Total Corporate Tax

This part of analysis also shows the contribution of corporate tax collected from commercial banks and finance companies in total corporate tax. Table 4.15 and chart 4.8 expressed this contribution. According to this table and chart, the contribution of corporate tax collected from commercial banks and finance companies was 5.55 percent

and 0.35 percent respectively in the fiscal year 1900/00 in the total corporate tax. After then it increased up in the fiscal year 2002/03 but it decreased in the fiscal year 2003/04. After then it increased up to two subsequent years 2004/05 and 2005/06 which was 5.88 percent, 11.02 percent and 0.40 percent, 0.70 percent on total corporate tax of commercial banks and total corporate tax of finance companies respectively. Subsequently, in the fiscal year 2006/07, 2007/08 and 2008/09 it increased to 10.20 percent, 10.81 percent and 11.49 percentage on total corporate tax of commercial bank respectively and it decreased to 0.47 percent, 0.42 percent and 0.41 percentages on total corporate tax of finance companies respectively.

Table 4.15
Contribution of Tax Collection from Commercial Banks and Financial Companies
on Total Corporate Tax

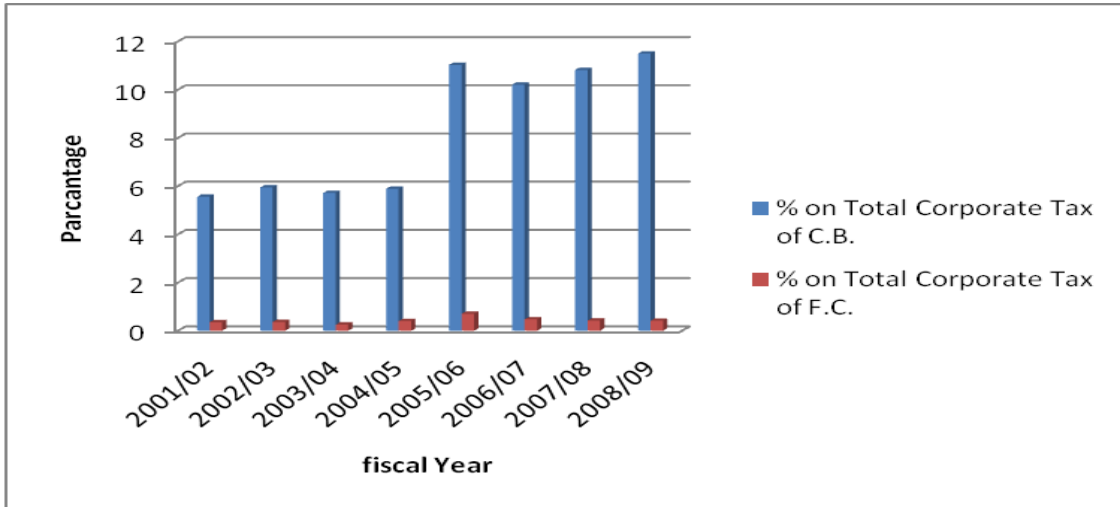
(Rs. in Million)

Fiscal Year	Corporate Tax	Corporate Tax Collection from C.B.	Corporate Tax Collection from F.C.	% on Total Corporate Tax of C.B.	% on Total Corporate Tax of F.C.
2001/02	3460	191.87	12.24	5.55	0.35
2002/03	4440	263.59	16.20	5.94	0.36
2003/04	5990	341.83	14.74	5.71	0.25
2004/05	4371.21	257.05	17.39	5.88	0.40
2005/06	3655.55	402.95	25.59	11.02	0.70
2006/07	4838.69	493.52	22.58	10.20	0.47
2007/08	5623.24	607.52	23.81	10.81	0.42
2008/09	6125.35	703.60	25.60	11.49	0.41

Source: Annual Reports of Commercial Banks (2001/02 to 2008/09) IRD, Annual Report (2005/06, 2006/07 and 2008/09), Annual Reports of Finance Companies (2001/02 to 2008/09).

Figure 4.8

**Contribution of Tax Collection from Commercial Banks and Financial Companies
on Total Corporate Tax**



Above chart shows the tax collection from commercial bank was in increasing order. It increased up to the fiscal year 2004/05 and slightly decreased in the fiscal year 2006/07 and 2007/08. Then after it was increased 2008/09. Tax collection from finance companies was also in increasing order and decreased in the last two years, which indicates that development of banking and finance sector. It was positive indicator for the economy of country.

**4.16 Contribution of Tax Collection from Selected Commercial Banks and Finance
Companies on Total Income Tax**

The percentage of tax collection from commercial banks and finance companies on total income tax has shown in the table No. 4.16 and chart No. 4.9. In the following chart and table, contribution of commercial bank and finance companies on total income tax was increasing order even though some years decreasing. In the fiscal year 2001/02, it was 3.12 percent and 0.19 percent of total income tax. It has been slightly increasing for the two subsequent years i.e. the fiscal year 2002/03 and 2003/04 for contribution of income tax collection from commercial bank, which was 3.55 percent and 3.75 percent, but contribution of income tax collection from finance companies was increased up in the fiscal year 2002/03 i.e. 0.22 percent. Then, it is decreased to 0.06 percent in the fiscal

year 2003/04. In the fiscal year 2004/05, the contribution of total income tax collection from commercial banks decreased to 2.88 percent but finance companies remain constant to 0.16 percent. In the fiscal year 2005/06, it sharply increased on both commercial bank and finance companies, which was 5 percent and 0.32 percent respectively. In the fiscal year 2006/07 and 2007/08, the contribution on total income tax of commercial banks was increased to 5.19 percent and 5.72 percent but finance companies contribution was decreased to 0.24 percent and 0.22 percent respectively. Finally, it increased unto 6.08 percent on total income tax of commercial banks but percentage on total income tax of financial companies was 0.22 percentages.

Table 4.16
Contribution of Tax Collection from Selected Commercial Banks and Finance Companies to Total Income Tax

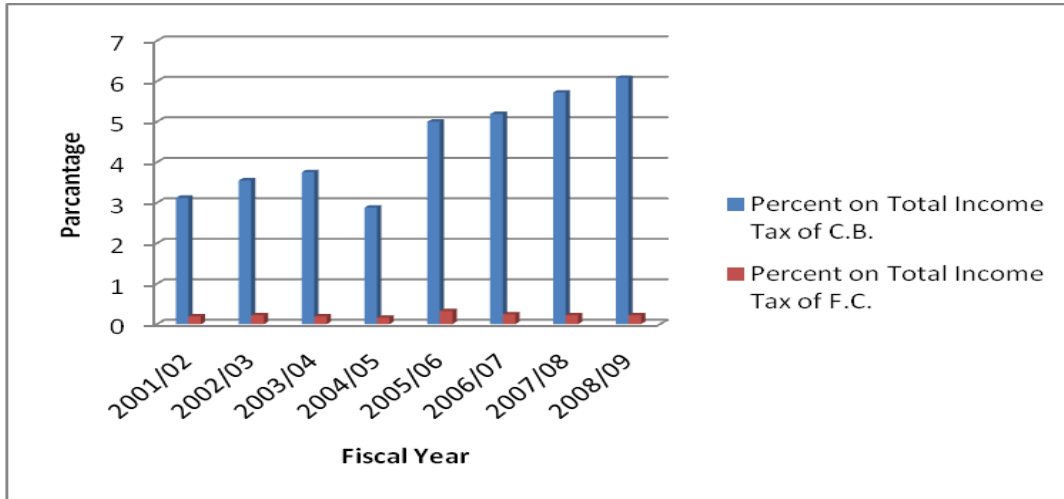
(Rs. in Million)

Fiscal year	Total Income Tax	Corporate Tax Collection from C.B.	Corporate Tax Collection from F.C.	Percent on Total Income Tax of C.B.	Percent on Total Income Tax of F.C.
2001/02	6170	191.87	12.24	3.12	0.19
2002/03	7420	263.59	16.20	3.55	0.22
2003/04	9110	341.83	14.74	3.75	0.19
2004/05	8919.68	257.05	17.39	2.88	0.16
2005/06	8059.57	402.95	25.59	5.00	0.32
2006/07	9514.78	493.52	22.58	5.19	0.24
2007/08	10619.52	607.52	23.81	5.72	0.22
2008/09	11569.12	703.60	25.60	6.08	0.22

Source: Ministry of Finance, Annual Reports, 2008/09, Annual Reports of Finance Companies (2001/02 to 2008/09)

Figure 4.9

Contribution of Tax Collection from Selected Commercial Banks and Finance Companies to Total Income Tax



In the conclusion, the corporate tax collection from commercial banks and finance companies are growing order, which indicated that the development of economy of country.

4.17 Contribution of Tax Collection from Commercial Banks and Finance Companies on Total Tax Revenue

The table 4.17 is presented below which shows the contribution of tax collected from commercial banks and finance companies on total tax revenue for the last seven year. According to the table, the contribution of tax collected from commercial banks is between 0.58 percent to 0.91 percent and 0.031 percent to 0.068 finance companies on total tax revenue respectively. The realization of tax from commercial banks in the fiscal year 2007/08, about Rs. 607.52 million, which contributed 0.85 percent on total tax revenue. In the fiscal year 2008/09 corporate tax collection from commercial banks was 703.60 that were highest all over the years. The realization of tax from finance companies in the fiscal year 2005/06, about Rs. 25.59 million, and 22.58 million, 23.81 million and 25.60 million in the subsequent year.

Table 4.17

Contribution of Tax Collection from Selected Commercial Banks and Finance Companies on Total Tax Revenue

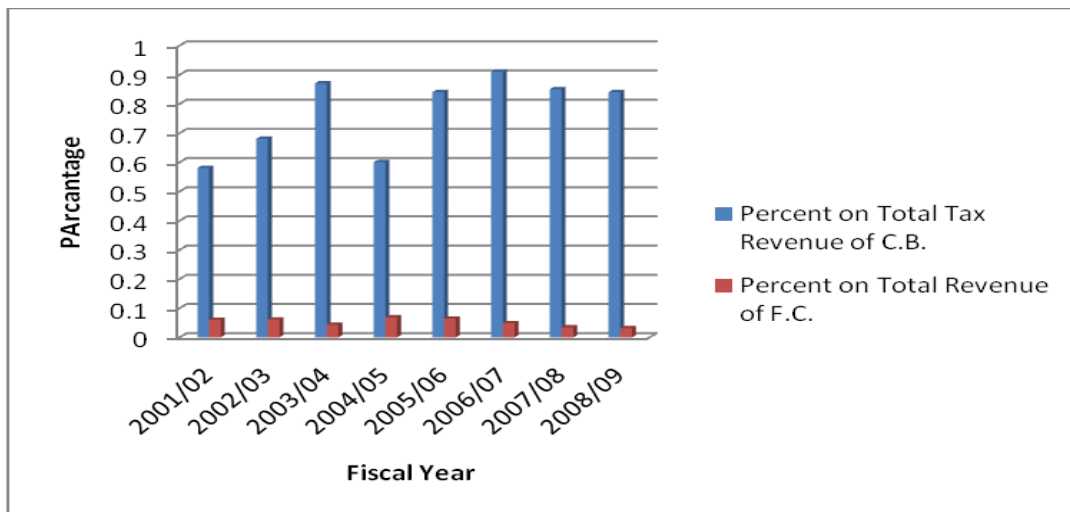
(Rs. in Million)

Fiscal Year	Total Tax Revenue	Corporate Tax Collection from C.B.	Corporate Tax Collection from F.C.	Percent on Total Tax Revenue of C.B.	Percent on Total Revenue of F.C.
2001/02	33152.10	191.87	12.24	0.58	0.060
2002/03	38865.10	263.59	16.20	0.68	0.061
2003/04	39331.30	341.83	14.74	0.87	0.043
2004/05	42587.00	257.05	17.39	0.60	0.068
2005/06	48172.50	402.95	25.59	0.84	0.064
2006/07	54104.70	493.52	22.58	0.91	0.048
2007/08	71047.20	607.52	23.81	0.85	0.034
2008/09	83355.40	703.60	25.60	0.84	0.031

Source: Ministry of Finance, Annual Reports, 2008/09, Annual Reports of Relevant Finance Companies (2001/02 to 2008/09).

Figure 4.10

Contribution of Tax Collection from Selected Commercial Banks and Finance Companies on Total Tax Revenue



In consolation, the tax collection from commercial banks and finance companies on total tax revenue was instable. It contributed on total tax revenue as fluctuation, some time it has high and some time it has low. Both sector contributed little in the total tax revenue.

4.18 Contribution of Tax Collection from Selected Commercial Bank and Finance Companies on Revenue of Government

This part of analysis also shows the contribution of tax collection from commercial banks and finance companies on total government revenue. According to table 4.18 and chart 4.11, the contribution of corporate tax collection from commercial banks and finance companies was 0.45 percent and 0.029 percent respectively in the fiscal year 2001/02 in total government revenue. According to the table, the contribution of tax collected from commercial banks was in between 0.45 percent to 0.75 percent and the contribution of tax collected from finance companies was in between 0.029 percent to 0.041 percent on total government revenue. In the fiscal year 2004/05, its contribution of financial companies on total government revenue was 0.030 percent. Then it increased 0.041 percentages and decreased to 0.032 percent, 0.029 percent and 0.027 percentages respectively.

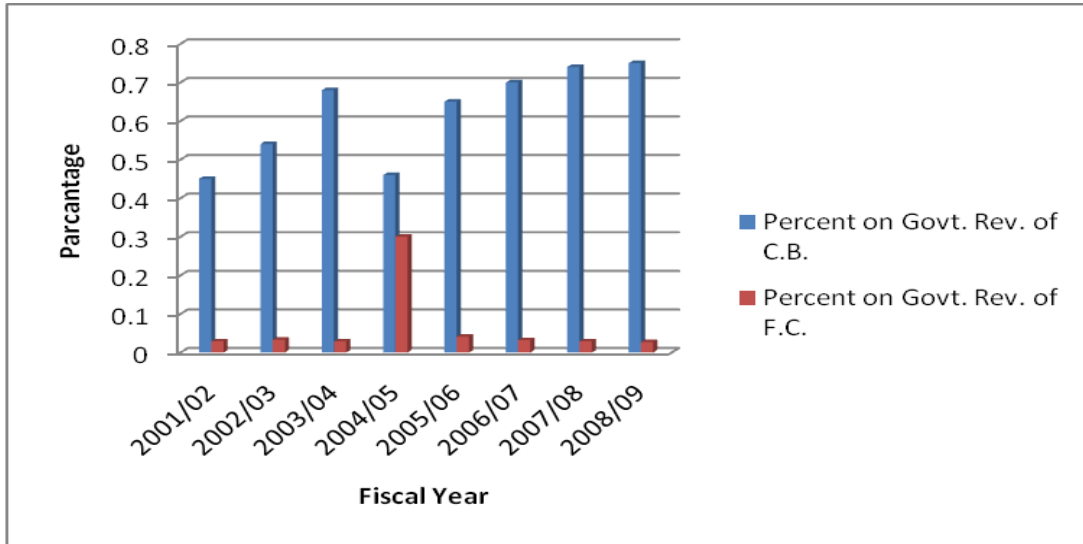
Table 4.18
Contribution of Tax Collection from Selected Commercial Bank and Finance Companies on Revenue of Government

(Rs. in Million)

Fiscal Year	Govt. Revenue	Corporate Tax Collection from C.B.	Corporate Tax Collection from F.C.	Percent on Govt. Rev. of C.B.	Percent on Govt. Rev. of F.C.
2001/02	42893.70	191.87	12.24	0.45	0.029
2002/03	48892.70	263.59	16.20	0.54	0.033
2003/04	50446.30	341.83	14.74	0.68	0.029
2004/05	56229.44	257.05	17.39	0.46	0.30
2005/06	62330.55	402.95	25.59	0.65	0.041
2006/07	70122.70	493.52	22.58	0.70	0.032
2007/08	82456.30	607.52	23.81	0.74	0.029
2008/09	93459.75	703.60	25.60	0.75	0.027

Source: Ministry of Finance, Annual Reports, 2008/09 Annual Reports of Relevant Finance Companies (2001/02 to 2008/09)

Figure 4.11
Contribution of Tax Collection from Selected Commercial Bank and Finance Companies on Revenue of Government



Thus as shown in the chart, the contribution of tax collection from commercial banks and finance companies on revenue of government was increasing till fiscal year 2003/04 from the fiscal year 2001/02. Then it severely decreased in the fiscal year 2004/05. In this period there are many problems in the economic environment of the nation. After then it slightly increased which is positive impact for the nation.

4.19 Analysis of Empirical Study

One of the sources of government revenue is taxation. The government collects revenues from various sources such as taxes, revenues from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue. Tax is playing a vital role in the economic development of the country. The main objective of taxation has been shifted from security perception to economic development. The modern objective of taxation is not only to maintain peace and security but also conduct development activities.

In this context, a research study is conducted to explore the contribution of income tax collection from commercial banks and finance companies through a questionnaire. Data

are collected from 75 respondents i.e. 25 from tax experts, 25 from tax officers and rest are from banking and financial sectors. Data are analyzed using descriptive like percentage, mean and standard deviation.

The questionnaires are focused on the present income tax rules, tax structure and the opinions of the taxpayers regarding income tax system and administration. In the questionnaires, all together 8 questions are asked to tax officials and 8 questions for others. The results obtained from the opinion survey are analyzed separately according to these questions.

4.20 Background of Responses

There are all altogether 100 questionnaires are distributed to three groups i.e. tax experts, tax officers and Banking and financial staffs. Among them, only 75 respondents have filled up their questionnaires and rests are no answer. The questions and responses are presented below.

4.20.1 Effectiveness of Income Tax System of Nepal

Table 4.19
Effectiveness of Income Tax System in Nepal

Respondent	Yes		No		I don't know		Total Respondents
	No.	Percentage	No	Percentage	No	percentage	
Tax experts	5	6.67	18	24.00	2	2.67	25
Tax officer	6	8.00	14	18.67	5	6.67	25
Banking and financing sector	8	10.67	12	16.00	5	6.67	25
Total	19	25.34	44	58.67	12	16.01	75

Source: Opinion Survey, 2010

In the opinion survey, 25.34 Percentage of total responded are in favor of the questions and 58.67 percentages of the total respondents are in against of it, whereas 16.01 percentages had no idea about tax system. The majority of the respondents through this table, the income tax system of Nepal are not effective.

4.20.2 Causes of Effectiveness of Income Tax System of Nepal

Table 4.20

Causes of Effectiveness of Income Tax System of Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total no of Points	Percentage	Rank
1	Applicable method of tax assessment	30	20	15	65	17.33	2
2	Provision of carry forward of losses	10	20	20	50	13.33	4
3	Sufficient exemption limit	60	55	65	180	48.00	1
4	Sufficient collection of revenue	10	25	15	50	13.34	3
5.	Other	15	5	10	30	8.00	5
	Total	125	125	125	375	100	

Source: Opinion Survey, 2010

Most of the respondents argue that it is not effective of the exemption limit now.

According to the preference of scale their reasons are ranked as follows:

Rank:

- | | |
|--|---|
| i. Application method of tax assessment | 2 |
| ii. Provision of carry forward of losses | 4 |
| iii. Sufficient exemption limit | 1 |
| iv. Sufficient collection of revenue | 3 |
| v. Other | 5 |

Nepali tax system is sufficient because of the following reasons, such as sufficient exemption limit, application method of tax assessment, sufficient collection of revenue and provisions of carry, forward of losses.

4.20.3 Causes of Non-Effectiveness of Income Tax System of Nepal

Table 4.21

Cause of Non- Effectiveness of Income Tax System of Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	Political instability	18	18	54	90	20	3
2	Lack of awareness of tax payers	36	24	36	96	21.33	2
3	Ineffective tax policy	54	72	30	156	34.67	1
4	Much confusion on tax laws	18	18	18	54	12.00	4
5.	Misuse of collected revenue	18	6	12	36	8.00	5
6	Other	6	12	0	18	4.00	6
	Total	150	150	150	450	100	-

Source: *Opinion Survey, 2010*

Most of the respondent argues that it is not effective. Their reasons according to preference of scale are ranked as follows:

Rank

- | | |
|-------------------------------------|---|
| i. Political instability | 3 |
| ii. Lack of awareness of tax payers | 2 |
| iii. Ineffective tax policy | 1 |
| iv. Much confusion on tax laws | 4 |
| v. Misuse of collected revenue | 5 |
| vi. Other | 6 |

Most of the respondents think that the income tax system of Nepal is not effective because there are much confusion of tax laws and no utilization of paid money in the proper place. Some of the respondent feels that income tax system of Nepal is effective because now-a-days tax offices follow the computerization method and they are able to collect sufficient revenue in terms of VAT, excise duties, custom duties, income tax and house rent etc.

4.20.4 Soundness of Tax Administration in Nepal

Table 4.22

Soundness of Tax Administration in Nepal

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	12	16.00	13	17.33	25
Tax Officer	9	12.00	16	21.33	25
Banking and Financing Sector	7	9.33	18	24.00	25
Total	28	37.33	47	62.67	75

Source: Opinion Survey, 2010

In this question, total of 37.33 percentage respondents are viewed in favor of the question. Their opinions show that the income tax system is sound in Nepal because now-a-days tax offices collect government revenue through VAT, custom duties and excise duties.

The majority of respondents are not in favor of the question in total of 62.67 percentage respondents' shows that Nepal has many effective policies but these policies are not implemented in the practice. The income tax administration of Nepal is not sound in the view of taxpayers and others because of lack of trained employee defective income tax act, lack of public participation.

4.20.5 The Responsible Causes for the Creation of Unsound Tax Administration of Nepal

Table 4.23

The responsible causes for the Creation of Unsound Tax Administration of Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Banking and finance	Total	Percentage	Rank
1	Defective income tax act	18	24	36	78	17.33	3
2	Lack of public participation	30	36	48	114	25.33	1
3	Lack of trained employee	36	42	30	108	24.00	2
4	Faulty organization structure of tax administration percentage	24	18	18	60	13.33	4
5.	Weakness of government's economic policy	30	12	12	54	12.00	5
6	Other	12	18	6	36	8.00	6
	Total	150	150	150	450	100	-

Source: Opinion Survey, 2010

Because of the unsound tax system, the entire Nepali tax system has become less effective. The taxes payers have lack of training, public want to escape from the circle of tax and weak government policies these are the main causes of unsuitable way of tax system. Government makes the policies but these policies are not implemented in the practice. Thus, income tax administration percentage of Nepal is not sound in the view of taxpayers and others because of lack of trained employees defective income tax act, lack of public participation, faulty organization structure of tax administration and weakness of government economic policy.

Rank

- | | |
|--|---|
| i. Defective income tax act | 3 |
| ii. Lack of public participation | 1 |
| iii. Lack of trained employees | 2 |
| iv. Faulty organization structure of tax administration percentage | 4 |
| v. Weakness of government's economic policy | 5 |
| vi. Others | 6 |

4.20.6 Opinions about the Current Income Tax Rate

Table 4.24

Options about the Current Income Tax Rate

Respondent	High		Medium		Low		Respondents
	No.	Percentage	No	Percentage	No	Percentage	
Tax Experts	9	12.00	14	18.67	2	2.67	25
Tax Officer	5	6.67	17	22.67	3	4.00	25
Banking and Financing Sector	12	16.00	8	10.67	5	6.66	25
Total	26	34.67	39	52.00	10	13.33	75

Source: Opinion Survey, 2010

From the above information it is cleared that 52 percent of total respondents argued that current income tax rate is medium. Only 34.67 percent argue that it is high and rest 13.33 percent say that it is low.

4.20.7 Sufficiency of Exemptions items of Income Specified in the Act

Table 4.25

Sufficiency of Exemptions Items of Income Specified in the Act

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	10	13.33	15	20.00	25
Tax Officer	13	17.33	12	16.00	25
Banking and Financing Sector	9	12.00	16	21.33	25
Total	32	42.67	43	57.33	75

Source: Opinion Survey, 2010

In the opinion survey, 42.67 percentages of total responds are in favors of the question. The exempted items are sufficient for the taxpayer and 57.33 percentages of respondents are in against of it. The majority of the respondents consider that the exempted items of income are not sufficient because of the following cases i.e. less consciousness of taxpayers, lack of training facility to employee, lengthy process of income tax assessment, increasing habit to tax deceit, misuse of power by tax administration percentage, un-utilization of tax paid money

The major problem of tax management is that its utilization of tax paid money. All the taxpayers want to know about where the tax paid money is used by government. There is no facility to ask question to tax officials because they are not helpful. The taxpayers are dull about the paid money. So they do not want to pay tax. There is no facility to taxpayers. The second problem is less consciousness of taxpayers because when the taxpayers become more conscious about taxation, then they will be ready to pay the actual amount. It helps to manage tax structure properly.

Another major problem of income tax management is its lengthy process of income tax assessment. Taxpayers never want the lengthy and time consuming process of assessment. The next problem of income tax management is increasing habit of tax deceit. Most of the taxpayers do not want to pay the actual amount of tax. In Nepal now-a-days, everywhere is the misuse of power and authority. The tax administrators promote the illegal process of tax deceiving by getting personal benefit from the large taxpayers. Lack of training facilities to the employee is another major problem of tax management in Nepal. The taxpayers feel difficulties as well.

4.20.8 Limitation of Exemption Limits for Income Tax in Nepal

Table 4.26

Limitation of Exemption Limits for Income Tax in Nepal

S.N	Alternatives	Tax Expert	tax officer	Banking and Finance	Total	Percentage	Rank
1	Exemption Limits should be increased	40	45	50	135	36.00	1
2	Pension income should be exempted	25	35	20	80	21.33	3
3	Life insurance premium should be increased	20	15	15	50	13.33	4
4	Exemption for remote area should be increased	30	30	35	95	25.33	2
5.	Other	10	-	5	15	4.00	5
		125	125	125	375	100	

Source: Opinion Survey, 2010

Most of the respondent argues that it is not sufficient of the exemption limit. Their reasons according to preference of scale are ranked as follows:

- Rank:
- i. Exemption limit should be increased 1
 - ii. Pension income should be fully exempted 3
 - iii. Life Insurance Premium should be increased 4
 - iv. Exemption for remote area should be increase. 2
 - v. Other 5

4.20.9 Necessary steps of Facilities should be Taken by Government for Bank and Finance Companies

Tax is the main source of government. The government should be taken the either optimistic or pacifistic steps. The government may collect more income tax if rewarded to the timely tax payers, flexible economic laws and policies, as well as reducing current tax rate.

Table 4.27
Necessary steps of Facilities Should be taken by Government for Bank and Finance Companies

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	Rewarded to the timely tax payers	32	24	36	92	30.67	2
2	Flexible economic laws and policies	40	32	24	96	32.00	1
3	Reducing current tax rate	8	24	20	52	17.33	4
4	Others	20	20	20	60	20	3
		100	100	100	300	100	

Source: Opinion Survey, 2010

The questions are asked to the tax expert, tax officer and banking and financial staffs whether Banks and finance companies effort for generating more income tax to the government. Its reasons according to preference of scale are ranked as follows:

- i. Rewarded to the timely tax payers 2
- ii. Flexible economic laws and policies 1
- iii. Reducing current tax rate 4
- iv. Other 3

4.20.10 Available Tax Concession for the Selected Commercial Banks and Financial Companies in Nepal

Income tax plays the major role in the GDP. That way, the government should give the some special provision to the Bank and the financial institutions. It should be tax holiday, investment credit, carry forward of loss, lowering tax rate and so on. These provisions are emphasized to incorporate more and more bank and financial institutions.

Table 4.28

Available Tax Concession for the Selected Commercial Banks and Financial Companies in Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	tax holiday	25	40	20	85	22.67	3
2.	Investment credit	50	40	40	130	34.67	1
3	Carry forward of losses up to 10 years	30	20	40	90	24	2
4	Lowering tax rate	10	15	20	45	12	4
5.	Other	10	10	5	25	6.67	5
		125	125	125	375	100	-

Source: Opinion Survey, 2010

The tax officials and experts say that no tax concession facilities should be given to the commercial banks and finance companies, because there is already given the facility of carry forward and backward of loss.

These question are asked to the tax expert, tax officer and Banking and financial staffs.

Their reasons according to preference of scale are ranked as follows:

Rank:

- | | | |
|------|--|---|
| i. | Tax holiday | 3 |
| ii. | Investment credit | 1 |
| iii. | Carry forward of losses up to 10 years | 2 |
| iv. | Lowering tax rate | 4 |
| v. | Other | 5 |

4.20.11 Suggestion to Increase the Tax Paying Habit of Nepalese People

Saving of income may help to increase the investment. It also plays a vital role in the field of national economic development. The saving money can utilize for infrastructure development also.

Table 4.29

Suggestion to Increase the Tax Paying Habit of Nepalese People

S.N	Alternatives	Tax expert	Tax officer	Banking and finance	Total	Percentage	Rank
1	Educating tax payers	48	42	36	126	28.00	1
2	Simplify tax laws	30	30	42	102	22.67	2
3	Timely assessment of taxpayers	30	24	30	84	18.67	3
4	Incentives to regular payers	18	18	24	60	13.33	4
5.	Imposing fines and penalties	12	18	12	42	9.33	5
6	Other	12	18	6	36	8.00	6
		150	150	150	450	100	

Source: Opinion Survey, 2010

The questions are asked to the tax expert, tax officer and Banking and financial staffs.

Their reasons according to preference of scale are ranked as follows:

Rank:

- Educating tax payers 1
- Simplify tax laws 2
- Timely assessment of taxpayers 3
- Incentives to regular payers 4
- Imposing fines and penalties 5
- Other 6

4.20.12 Steps those should be Considered to Generate More Revenue from Banks and Financial Companies**Table 4.30****Steps those Should be Considered to Generate more Revenue from Banks and Financial Companies**

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	Strict supervision should be done by Nepal Rastra Bank	60	50	40	150	40.00	1
2	Audit should be done regularly	30	30	35	95	25.33	2
3	They should be given tax exemption for some years, if they're established in rural areas	20	20	25	65	17.33	3
4	Should be given more facilities and concessions	10	15	20	45	12.00	4
5.	Other	5	10	5	20	5.34	5
		125	125	125	375	100	-

Source: Opinion Survey, 2010

The respondents have given their opinion that the government should not give only facilities and concession to bank and finance companies for generating more income tax because income tax act 2058 has provided a lot of facilities for banks and finance companies i.e. loss carry forward and loss backward policy. So the facilities given in the present are sufficient. Strict supervision should be done by the professional auditor. But if

the finance companies and commercial banks are to be established in rural areas, then they should be given tax exemption for some years.

The government should give different facilities to banks and finance companies for generating more income tax. Their, suggestion according to preference of scale are given below.

Rank:

- i. Strict supervision should be done by Nepal Rastra Bank. 1
- ii. Audit should be done regularly 2
- iii. They should be given tax exemption for some years, 3
- iv. If they are established in rural areas 4
- v. Should be given more facilities and concessions 5
- vi. Other, 6

4.20.13 Effectiveness of Self Assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore, assessment procedure should be appropriate and effective. A question, "Self-assessment tax is easy in Nepal" is asked to know the respondents' opinion about appropriate method of income tax assessment. The response is presented in the table as below.

Table 4.31
Effectiveness of Self Assessment

Respondent	Yes		No		Respondent
	No	percent	No	percent	
Tax Expert	5	17.85	20	42.56	25
Tax Officer	10	35.71	15	31.91	25
Banking and Financing Sector	13	46.43	12	25.53	25
	28		47		75

Source: Opinion Survey, 2010

From the above information, it is cleared that 28percent in total respondents are argued that self assessment of income tax is effectiveness. But out of them, 47 percent of the respondents argue that is not effectiveness. In this way, self assessment tax is not easy.

4.20.14 View about the Current Income Tax Rate

Tax policy plays the vital role in the revenue collection in Nepal. If more or less tax rate imposes to the public it may imbalance to the economic development. That way tax rate should be reasonable.

Table 4.32
View about the Current Income Tax Rate

Respondent	High		Medium		Low		Total Respondent
	No.	Percentage	No	Percentage	No	Percentage	
Tax Expert	9	12.00	14	18.67	2	2.67	25
Tax Officer	5	6.67	17	22.67	3	4.00	25
Banking and Financing Sector	12	16.00	8	10.67	5	6.67	25
Total	26	34.33	39	52.00	10	13.33	75

Source: Opinion Survey, 2010

Some of the officials and experts say, that current income tax rate is low in comparison to the income tax tare of other countries. Whereas some of them consider that the current income tax rate is higher than income. Generally, majority of experts has considered it is a medium.

4.20.15 Appropriate Method of Income Tax Assessment in Nepal

Table 4.33
Ranking the Tax Appropriate Tax Assessment Method in Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	Self-assessment	48	40	24	112	37.33	1
2	Assessment on the best judgment	28	24	40	92	30.67	2
3	Tax settlement commission	16	28	28	72	24.00	3
4	Other	8	8	8	24	8.00	4
		100	100	100	300	100	

Source: Opinion Survey, 2010

The questions are asked to the tax expert, tax officer and Banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank:

- i. Self-assessment 1
- ii. Assessment on the best judgment 2
- iii. Tax settlement commission 3
- iv. Other 4

4.20.16 Effectiveness of Income Tax in Nepal to Raise Government Revenue

The respondents are requested to rank their choice from 1 to 6 according to their preference to know the opinion of the respondents' view regarding to important factors for effectiveness of income tax in Nepal. A question is asked; "In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government. Their responses are summarized in the table as below.

Table 4.34
Effectiveness of Income Tax in Nepal to Raise Government Revenue

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	Clear act, rules and regulations	48	36	42	126	28.00	1
2	Conscious and honest tax payers	24	42	24	90	20.00	3
3	Honest tax officers	12	12	18	42	9.33	5
4	Effective tax administration percentage	36	30	36	102	22.67	2
5.	Political non interruption	30	18	18	66	14.67	4
6.	Others	-	12	12	24	5.33	6
		150	150	150	450	100	

Source: Opinion Survey, 2010

The questions are asked to the tax expert, tax officer and Banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank:

i. Clear act, rules and regulations	1
ii. Conscious and honest tax payers	3
iii. Honest tax officers	5
iv. Effective tax administration percentage	2
v. Political non interruption	4
vi. Others,	6

4.20.17 Adequate Contribution of Income Tax from Banking and Financial Companies

The questions are asked to the tax expert, tax officer and banking and financial sector that tax collection from bank and financial sector are satisfactory or not. Their clear views are as follows:

Table 4.35

Adequate Contribution of Income Tax from Banking and Financial Companies

Respondent	No		Yes		Total Respondent
	No.	Percentage	No	Percentage	
Tax Expert	18	24	7	9.33	25
Tax Officer	16	21.33	9	12.00	25
Banking and financing sector	15	20	10	13.34	25S
Total	49	65.33	26	34.67	75

Source: Opinion Survey, 2010

From the above information, it is clear that contribution of income tax from banking and financial companies is not adequate effective because more then 65.33percent respondents support their negative views, but only 34.67percent respondent argue that it is not adequate. That way, it is concluded that income tax from banking and financial companies is not adequate.

4.20.18 Causes of Inadequacies Contribution of Income Tax from Banking or Financial Companies

There are many reasons that causes to inadequate income tax from banking and financial companies. They may defective income tax policy, rules and regulations, inadequate government economic policy, poor performance of Banking or financial companies, lack of stable political conditions and other so on.

Table 4.36
Causes of Inadequacies Contribution of Income tax from Banking and Financial Companies

S.N	Alternatives	Tax Expert	Tax Officer	Banking and finance	Total	Percentage	Rank
1	Defective income tax policy, rules & regulations	60	50	55	165	44.00	1
2	Inadequate government economic policy	35	40	40	115	30.67	2
3	Poor performance of Banking and financial companies	20	10	15	45	12.00	3
4	Lack of stable political condition	10	20	10	40	10.67	4
5.	Other	-	5	5	10	2.67	5
		125	125	125	375	100	

Source: Opinion Survey, 2010

The question “Causes of inadequate of income tax” is asked to the tax expert, tax officer and banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank:

- i. Defective income tax policy, rules & regulations 1
- ii. Inadequate government economic policy 2
- iii. Poor performance of banking or financial companies 3
- iv. Lack of stable political condition 4
- v. Other 5

**4.20.19 Suggestion for Increasing Contribution of Income Tax to National Revenue
from Banking and Financial Institution**

Table 4.37

**Suggestion for Increasing Contribution of Income Tax to National Revenue from
Banking and Financial Institution**

S.N	Alternatives	Tax Expert	Tax Officer	Banking and finance	Total	Percentage	Rank
1	Increase of managerial efficiency	40	40	45	125	33.33	2
2	Reform the income tax policy, rules and regulation	55	45	40	140	37.33	1
3	Effective imposition of fine and penalty system	15	15	20	50	13.33	3
4	Effective tax administration percentage system	10	15	15	40	10.67	4
5.	other	5	10	5	20	5.33	5
		125	125	125	375	100	-

Source: Opinion Survey, 2010

The question, “Factor of initiated to increase the contribution of income tax from banking and financial institution?” are asked to the tax expert, tax officer and Banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank

- i. Increase of managerial efficiency 2
- ii. Reform the income tax policy, rules and regulation 1
- iii. Effective imposition of fine and penalty system 3
- iv. Effective tax administration percentage system 4
- v. Other 5

4.20.20 Effectiveness of Contribution of Income Tax to National Revenue from Banking and Financial Institution

Table 4.38

Effectiveness of Contribution of Income Tax to National Revenue from Banking and Financial Institution

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	13	17.33	12	16	25
Tax Officer	10	13.33	15	20.00	25
Banking and Financing Sector	14	18.67	11	14.67	25
Total	37	49.33	38	50.67	75

Source: Opinion Survey, 2010

From above survey, 49.33percent respondents argue that it is effective and satisfactory, rest 50.67percent respondent argue that it is not satisfactory and not effective. Thus, the contribution of income tax from banking and finance institution to national revenue is not effective and satisfactory.

4.20.21 Existence difficulties in Income Tax Collection and Assessment Procedure from Public Enterprises

Table 4.39

Existence Difficulties in Income Tax Collection and Assessment Procedure from Public Enterprises

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Expert	16	21.33	9	12.00	25
Tax Officer	15	20.00	10	13.33	25
Banking and Financing Sector	18	24.00	7	9.33	25
Total	49	65.33	26	34.67	75

Source: Opinion Survey, 2010

According to the survey, 65.33 percent of total respondent arguer that it is difficult in income tax collection and assessment procedure form public enterprises and rest

34.67percent of total respondents argue that it is not difficulty. Thus it is concluded that income tax collection and assessment procedure from public enterprises is difficult.

4.20.22 Some Particular Suggestions to Increase Income Tax from Banking and Finance Sector

Table 4.40
Some Particular Suggestions to Increase Income Tax from Banking and Finance Sector

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	18	24.00	7	9.33	25
Tax Officer	13	17.33	12	16.00	25
Banking and Financing Sector	10	13.33	15	20.00	25
Total	41	54.67	34	45.33	75

Source: Opinion Survey, 2010

According to the survey, it is conclude that 54.67percent of total are in favour of this question respondents and rest, 45.33percent of total are in against of it. That's way it is necessary to take particular suggestion to increased income tax from banking and financial sector.

4.20.23 Views on the Income Tax Net

Table 4.41
View on the Income Tax Net

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	15	20	10	13.33	25
Tax Officer	13	17.33	12	16.00	25
Banking and Financing Sector	10	13.33	16	21.33	25
Total	38	50.66	38	50.67	75

Source: Opinion Survey, 2010

From the above survey, it is found that 49.33percent of total respondents argue that it is not necessary to brining some income to income tax net, 50.67percent of total

respondents argue that it is necessary. So, it is found that some income is necessary to bring into the income tax net.

4.20.24. Views of the Tax Free Income

Table 4.42
View of the Tax Free Income

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	10	13.33	15	20.00	25
Tax Officer	12	16.00	13	17.33	25
Banking and Financing Sector	20	26.67	5	6.67	25
Total	42	56.00	33	44.00	75

Source: Opinion Survey, 2010

According to the survey, it is find that 56.00percent of total respondents argue that some income should be tax free, and 44.00percent of total respondents argue that it should not be tax free. That way, it is concluded that some income should be tax free.

Separate question asked to the tax experts and Banking and financial companies are as follows:

4.20.25 Particular Suggestions and Recommendations about Income Tax in Nepal

It is necessary to increase the internal revenue in order to operate nation and develop the economy and to decreases the dependency on foreign assistance. Income tax is the best and researchable source of national revenue in the developing country like Nepal. The trend of income tax realization and associated problems should be studied time to time to find out the ways for proper solution and the corporate taxpayers to the nation. The study of banking and non-banking finance in respect tax payment may be based for investigation of potential tax source. As a result, the nation can expand the scope of tax net having positive impact on income tax collection.

It is necessary to pay income tax for all the banking sectors, financial institutions and other organizations. But some few areas in which tax must be free from the state.

- a) Educational sector must be totally free from the circle of tax.
- b) All the non trading concerns like hospitals, nursing homes and public health care centers should be tax free.
- c) All types of national production and for their export.
- d) Development of the holy places.

All the above sectors should be tax free in state.

For Tax Expert Only

4.20.26 Existences Complain for Banking and Financial Companies

Table 4.43

Complain of Banking and Financial Companies

S.N	Alternatives	Tax Expert	Total	Percentage	Rank
1	About tax assessment	48	48	64.00	1
2	About fines and penalties	9	9	12.00	3
3	Other	18	18	24.00	2
		75	75	100	-

Source: Opinion Survey, 2010

The questions are asked to the tax expert only. They present their views. Their views are presented according to preference. These are as follows

Rank:

- i. About tax assessment 1
- ii. About fines and penalties 3
- iii. Other 2

For Banking and Financial Companies

4.20.27 Existences Trouble for Paying Income Tax

Table 4.44

Existences Trouble for Paying Income

Respondent	Yes		No		Total
	No.	Percentage	No	Percentage	Respondents
Banking and financing sector	20	26.67	5	6.67	25
Total	20	56.00	5	44.00	25

Most of the respondent argues that it is difficult to the paying income tax.

4.20.28 Existences problem faces by Banking and financial companies

Table 4.45

Existences problems faces by Banking and Financial Companies

S.N	Alternatives	Banking and Finance	Total	Percentage	Rank
1	Consuming unnecessary time	40	40	32.00	1
2	Illegal incentives by tax personnel	15	15	12.00	4
3	Vague provisions in income tax laws.	30	30	24.00	3
4	Lengthy and unnecessary process	25	25	20.00	2
5.	Lack of co-operation by tax administrator	10	10	8.00	5
6	Others	5	5	4.00	6
		125	125	100	-

Rank:

The question are asked to the tax expert, tax officer and Banking and financial staffs.

Their reasons according to preference of scale are ranked as follows:

- i. Consuming unnecessary time 1
- ii. Illegal incentives by tax personnel 4
- iii. Vague provisions in income tax laws 3
- iv. Lengthy and unnecessary process 2
- v. Lack of co-operation by tax administrator 5
- vi. Other 6

4.21 Major Finding of the Study

1. The present system of taxation for the small taxpayers is good. Because they do not have to maintain the proper account. On the other hand, it is not efficient, because the tax office does not impose same rule for all kinds of tax payers. It is seen that due to the assessment delays, the income tax has made the provision of self assessment since the early 1990s. All the commercial Banks and finance companies have been computing their tax liabilities under this system. But this assessment made under this system which has not been fully accepted by tax officers. Self assessment system is also lengthy process and demand many documents. Negative attitude and unfriendly behaviors of tax authorities to the tax payers are also the problems. They do not allowed to deduct some expenses even tax law has made provision of deduction. They do not accept easily self assessed returns and make delays in issuance of tax clearance.
2. Income tax revenue is in the also increasing trend. The contribution of corporate tax is highest among other tax revenues. Under corporate tax, the government enterprises are paying more tax then others. Second position is taken by industry, trade and profession under individual income tax. There is highly fluctuation in the contribution of corporate tax. Growth rate has showed increasing order and after sometime it is seemed to be negatively and again it is increased somehow.
3. There is highly fluctuation in contribution of corporate tax. Growth rate has showed increasing order after sometimes it is seemed to be negatively and again bit is increased somehow. Himalayan Bank Ltd. has paid higher tax. Total tax paid by commercial banks is seemed to be increasing order till fiscal year 2003/04. After that it is sharply decreased and it is again increased and fluctuate condition.
4. The contribution of tax collection from commercial banks and finance companies on total corporate tax is very low. There is less contribution of tax collection from commercial banks and finance companies on government revenue. The percentage on total income tax of commercial banks has seemed to be in satisfactory position whereas the percentage on total income tax of finance companies is in nominal position. It is because working area of commercial banks is very bigger than that of finance companies.

5. The contribution percentage of income tax paid by commercial banks to total government revenue and total tax revenue has seemed very low. The contribution to total income tax is not satisfied but contribution to corporate tax is satisfied.
6. The contribution percentage of income tax paid by finance companies to total government revenue and total tax revenue is very low but it is in increasing order which has showed the development of national economy. The contribution of income tax from finance companies to total income tax and corporate tax which seems nominal.
7. The percentage on total income tax of commercial banks has covered the satisfactory position whereas percentage on total income tax of finance companies has covered nominal position. It is because working area of commercial banks was very bigger than that of finance companies. The percentage on total tax revenue of commercial banks is low and percentage on total tax revenue of finance companies was insignificant. The contribution of tax collection from commercial banks and finance companies on revenue of government seems very low.
8. Income tax is a major source of government revenue. The contribution of tax revenue will be effective if the collection process was made properly. And the collection must be used in proper place. The present system of tax in Nepal is not efficient, because the tax office does not impose same rule for all kinds of taxpayers. The Inland Revenue Department of tax has collected more tax from the small taxpayers and less from others.
9. The problem related to tax management was found less consciousness for taxpayers and legal consideration i.e. the law should be very clear and understandable to the people, increasing habit of tax deceit, remove the its lengthy process of income tax assessment, some the problem of the lack of identical accounting system, remove the misuse of power and authorities and to fulfill lack of training facilities to the employees.
10. The main problem facing by commercial banks and finance companies in paying corporate tax is assessment delays. The income tax law was made provision of the self-assessment since the early 1990s. All the commercial banks and finance companies have been assessing their tax liabilities under this system but the

assessment made under this system is not fully accepted by tax officers. They demand many documents for the process of self-assessment

11. Negative attitude and unfriendly behavior of tax authorities to the taxpayers are also the problems to the bankers and finance companies. They are not seen like civil servants. They do not allow to deduct some expenses even tax law has made provision of deductions. They do not accept easily self-assessment return and make delays in issuance of tax clearance certificate.

From Secondary Data:

1. The income tax system of Nepal is efficient because of application method of tax assessment for Nepali. tax system is sufficient because of the following reason such as sufficient exemption limit, application method of tax assessment, sufficient collection of revenue & Provision of carry forward of losses etc.
2. Most of the respondents have thought that the income tax system of Nepal is not efficient because there are much confusion of tax laws and no utilization of paid money in the proper place. Some of the respondent feels that income tax system of Nepal is efficient because now-a-days tax offices follow the computerization method and they are able to collect sufficient revenue in terms of VAT, excise duties, custom duties and income tax house rent etc.
3. The reasons of efficient of income tax are, application method of tax assessment, provision of carry forward of loss, sufficient exemption limit and sufficient collection of revenue.
4. The reasons for insufficient are, political instability, lack of awareness of tax payers, effective tax policy, much confusion on tax laws and misuse of collected revenue.
5. The income tax administration in Nepal is not Sound. The reason for insufficient are: defective income tax act, lack of public participation, lack of trained employee, faulty organization structure of tax administration, weakness is government's economic policy.
6. The current income tax rate is medium and the exempted items of income specified in the act are sufficient.

7. The following facilities should be provided the bank and financial institution for generating more income rewarded to the timely tax payers, flexible economic laws and policies and reducing current tax rate etc.
8. The following facilities should be given to the commercial banks and finance companies, such as tax holiday, investment credit, carry forward of losses up to 10 years and lowering tax rate etc.
9. Suggestions to increase the tax paying habit of Nepalese people are various such as educating tax payers simplify tax laws, timely assessment of taxpayers, incentives to regular payers, imposing fines and penalties etc.
10. The government should consider the following steps to generation more revenue from banks and financial companies such as strict supervision should be done by Nepal Rastra Bank, audit should be done regularly, they should be given tax exemption for some years, if they are established in rural areas and they should be given more facilities and concessions etc.
11. The following tax assessment method is more appropriate in Nepal due to proper self-assessment, assessment on the best judgment and tax Settlement Commission etc.
12. The most important factor for effectiveness of income tax in Nepal to raise government revenue are: clear act, rules and regulation, conscious and honest tax payers, honest tax officers, effective tax administration, political non interruption.
13. The contribution of income tax from Banking or Financial companies is not satisfactory. The reasons are defective income tax policy, rules & regulations, inadequate government economic policy, poor performance of Banking or financial companies, Lack of stable political condition etc.
14. The factor initiated to increase the contribution of income tax from banking and financial institution are increasing of managerial efficiency, reform the income tax policy, rules and regulations, effective imposition of fine and penalty system, effective tax administration system.
15. Contribution of income tax from Banking to national revenue is not effective and satisfactory.

CHAPTER–V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In each country, a lot of fund is spent by the public authority for the protection of command people and for the creation of various socioeconomic infrastructures. Protection expenditure includes the purchase of arms and ammunitions, army and police expenses and administration of jails. The government expenditures are increasing day by day because of demand of time, increasing price and national income government needs more money to run it successfully. The government collects revenues from various sources such as tax, revenues from public enterprises, special assessment, fees fines grants and assistance etc. among them tax is the main source of government revenue.

5.1 Summary

Commercial banks are the financial institutions which deal in accepting deposits from individuals and institution. They provided interest, mobilize capitals and grant loans against securities that help to remove the deficiency of capital. They also furnish necessary working capital according to the requirements for trade, commerce, industry as well as even to agriculture sectors and create credit. So, they are being the means for the development of society. Their main objectives are to earn reasonable profit as reward for their service through proper mobilization of idle resources in productive sector by collecting them from different scattered sources. They help to reduce the probability of inflations by increasing the interest rate while economy is interested for investment in case of depression period.

The growth of banking in Nepal is not so long. In comparison with other developing or developed countries, the institutional development in banking system in Nepal is far behind. Nepal has to wait for a long time to come to this present banking position.

A finance company is not established with the objective as the objective of collecting bank is opened. It is established with the objective of collecting the capital scattered in the country with the medium of non-banking activities. The private sector is encouraged

to open the finance company to bring the speed economic development in liberal and free market economy.

As the role of finance service sector of banks continues to grow in the economy at recent times, pressures are mounting for an effective service by both customers and finance companies. The expansion and contraction of finance companies are influenced by the nature of the economy and the policy of regulator authority.

Commercial banks and finance companies are corporate bodies which are profit-oriented organizations. They make profits from financial transactions by rendering services to the public and business organization and pay income tax to the government from their taxable income. There are also some problems in collection of income tax from commercial banks and finance companies. Some of them have not yet got audited their accounts for five to six years. This practice should be eliminated for more generation of income tax. On the other hand, it seems that commercial banks have appealed to revenue tribunal time to time. It shows there are some weaknesses in tax assessment of such commercial banks and finance companies and vague law and regulation of income tax Law and Finance Act. These are the main problems to be solved as far as possible to mobilize more resources through income tax from commercial banks and finance companies.

The income tax is a vital source of the government revenue. There is no obligation to the third parties by mobilizing resource through taxation. Two types of income tax are applied i.e. personal income tax and corporate income tax. However, individuals because dishonest and hide the real income. They enjoy the weaknesses of tax law and escape from tax administration. There are some corrupt staffs in inland Revenue Department and Offices, who encourage the taxpayers to evade tax liabilities. Similarly, the Department cannot find out the actual number of income taxpayers.

In Nepal, there is no proper supervision over the staff member of tax collection department. Behavior of tax offices is also not satisfactory. Corruption is the main

problem of tax administration. There is also a problem related to tax awareness among general public. It seems that income tax is become more difficult. There is no reliable and sufficient data for tax purpose and there is lack of information and co-ordination between different Departments and Inland Revenue Department.

5.2 Conclusion

The study has primarily focused on the tax collection and practice adopted by the sample banks and finance companies with a view to provide valuable suggestions which may be helpful to the formulation of optimal income tax collection and contribution of tax paid by banks and finance company to the government revenue for development. The main objective of the study is to gain an insight into the income tax collection from commercial banks and non-commercial finance institution and give appropriate suggestions to improve the tax system so that the government can collect more revenues and use them in the process of nation development. The study will not only help the government to collect more revenue but also make the concerned people aware of the exemption of income and deduction of expenses.

Income tax has been becoming most important source of the nation revenue for the economical and social development of the country, which requires huge amount. Any progressive activities should be undertaken each year to give minimum requirements of people. Proper management is required to collect the targeted revenue. Therefore, income tax management also should be sound for the planning, directing and collection of income tax either personal income tax or corporate tax. Collection of income tax is difficult task and the objective of income tax management is also the achievement of the goal of income taxation system. Income tax management also needs to recognize its taxpayers, and their net income. It needs to plan and anticipate the income tax collection in future needs to make implement the policy formulated by the tax department and needs to control the defects of policy formed for correction.

Only tax policies and programmers are not successful devices for achieving the ultimate goal of an organization. For the achievement of targeted goals, the policies and plans

must be implemented deficient and effective manner. Tax administration is an important sub system of taxation system, which is needed for successful implementation of tax policies and laws. Policies making is relatively easy but more difficult to administer. Policies are formulated by top level while the lower level tax offices implement them.

The success and failure of any policy depend upon the efficiency and effectiveness of the tax administration Income tax is administered directly by the Inland Revenue Department, Ministry of Finance. Other administration such as customs administration, revenue investigation administration and revenue administration and training centers are also involved in the income tax administration the revenue division of this Ministry of Finance is responsible for formulating tax policy and setting up appropriate administration to implement the tax policy. The revenue investigation administration investigates the revenue leakages made by officers and taxpayers for their mutual benefits. The revenue administration training center performs training, workshops and seminars for the tax officials.

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. The government revenue is the mix (contribution) of tax revenue and non-tax revenue consist of various sources.

The customs duty is one of best items of indirect tax group. The excise duty is also the indirect tax which is imposed in the liquor production and other industrial production. The land tax that includes land registration fee is also a kind of direct tax. Miscellaneous indirect taxes include contract tax, entertainment tax, hotel tax, air flight tax. They are also contributing to the national receipt. Even tough they have been contributing small rate. Thus, the tax revenue is the highly contributing source of total government revenue. But non-tax revenue has been also contributing in considerable rate among the other individual revenue items. The composition of government revenue has different types of tax and non-tax revenue items.

National exchequer is the composition of tax revenue and non-tax revenue. tax revenue includes direct and indirect taxes. Non-tax revenue of the government is also important revenue source that includes different types of fees, charges, dividend, royalty and principle with interest from companies and corporation. Sale of fixed assets and mint are also components of non-tax revenue. The tax revenue is more contributing than that of non-tax revenue.

The trend of direct tax collection is positive i.e. it is increasing order but it decrease in the last year. The reason behind of increasing is the increment of income tax collection and other direct taxes. The income tax collection has been increasing due to increasing number of tax payers and that taxable revenue and profit. It can be said that the positive trend of direct tax denotes economic improvement of the nation even though the nation is in deep trouble in these days due to political crisis.

Resource mobilization through income tax is very important instrument in Nepal. There are existing trend deficit and resource gap each year. That is way; the government has to borrow foreign loans. For the improvement of these constraints, the government must be able to increase its internal resources. Income tax as the component of internal resources has been contributing in the government revenue in the increasing trend. But it is also not improved as expected due to various reasons: weakness in income tax administration, lack of tax morality in taxpayers, defectors in income tax provisions and illegal business activities are primarily responsible for insufficient realization of income tax revenue in Nepal. The corporate bodies do not escape from tax liabilities in general. They maintain the books of accounts in accepted formats, audited their accounts and pay taxes in due date. However, most of government enterprises manipulate the accounts, and their financial performances are also bad. On the other hand, family managed private companies' practices tax evasion. These are the drawbacks corporate tax realization in Nepal. It has many problems relating to income tax collection.

Himalayan bank limited and Nepal Bangladesh bank Limited are top two corporate tax payers in commercial banking. The coefficient of variation demonstrates the variation of

corporate tax from the central tendency i.e. mean payment. Himalayan Bank Limited is less C.V. it means that its corporate tax paying is very close to the average payment than others. Everest Bank Ltd. has highest C.V. That is why it has a volatile in income tax paying. The corporate tax collection from commercial banks is also in the increasing order. The Himalayan Bank Ltd. has been contribute higher tax but the C.V. of this bank is very low than others, it means that its loan its payment is closed to average payment.

The contribution percentage of tax payment made by commercial banks has been increasing expect in the fiscal year 2004/05. The reasons behind the increasing contribution of banking sector to tax are increasing loans, advances and overdraft of commercial banks, more profit, and branch extension in the kingdom of Nepal. However, in the fiscal year 2004/05 the economic situation was adversely affected due to the state of emergency in the country and political instability. That is the reason the commercial banks paid low corporate tax then preceding years. In the fiscal year 2005/06 is slightly increased in the total revenue and total tax revenue respectively. Being the favorable economic situation, the contribution percentage has been increased continuously till the fiscal year 2007/08.

GDP means the value of goods and services has produced the nation. For the analysis, gross, domestic product at the current price is taken as base. The contribution percentage of taxes has been very low in GDP even through both have been increasing. It can be viewed that share of corporate tax as well as tax from commercial banks on GDP was very low. Their increment is also minimum. The fiscal year 2004/05 is bad to the nation due to various reasons. In that year, the growth of GDP also was very low. The share of corporate tax on GDP has reached to 1.52 percent (highest rate) in the fiscal year 2003/04 the same year the contribution of tax from commercial banks on GDP is only 0.09 percent.

National Finance Co. Ltd. and NIDC Capital Markets Ltd. are the top two corporate taxpayers in finance companies. Katmandu Finance Ltd. has less C.V. It means that its corporate tax paying is much closed to the average payment than others. Nepal Share

Markets Ltd. has highest C.V. That is it has high volatile in income tax paying. The corporate tax collection from finance companies is also increasing order. The National Finance Co. Ltd. has been contribute higher tax but the C.V. of Katmandu Finance Ltd. is very low then others. It means that its payment is closed to average payments.

It can be viewed that share of corporate tax as well as tax from finance companies on GDP was very low. Their increment is also minimal. The fiscal year 2004/05 looks bad to nation due to various reasons. In that year the growth of GDP also is very low. The share of corporate tax on GDP has reached to 1.52 percent (highest rate) in the fiscal year 2003/04. In the same year the contribution of tax from finance companies on GDP was only 0.05 percent. In the fiscal year 2005/06, the share of corporate tax on GDP is very low which 0.85 percent is but in the same year the corporate tax finance companies is 0.009 percent which is highest.

The tax collection from commercial bank is in increasing order. It increase of to the fiscal year 2003/04 and slightly has decreased in the fiscal year 2004/05. Tax collection from finance companies was also in increasing order and has decreased in the last year, which indicates that development of banking and finance sector. It is positive indictor for the economy of country. The contribution of commercial banks and finance companies on total income tax is increasing order. The corporate tax collection from commercial bank and finance companies are growing order, which indicate that the development of country. The tax collection from commercial bank and financial companies on total tax revenue is instable. The contribution on total tax revenue is fluctuation due to some time it has higher and some time it has low. Both sectors have contributed little in the total tax revenue.

Tax rate should not be so high only for maximum revenue realization but should be activator for the private investment. Developing countries like Nepal needs to boost of their economic condition by developing industry and trade within the country. Imposition of tax on corporate profit was started with the enactment of the business profit and

Remuneration tax Act, 1960. The starting corporate tax rate is 25 percent and it is levied on progressive way.

The self-tax assessment provision is made in the early 1990 with the eighth amendment of Income tax Act, 1974. They are official assessment, committee assessment and self assessment system. Most of the assessments are conducted under the official assessment system, where tax payers are required to submit their tax returns to the tax offices and tax officials are required to assess the taxable income and tax amount of the tax payer.

5.3 Recommendations

Based on the major findings in this study, some recommendations are explained below. This recommendation will certainly be proved milestone to overcome existing issues in this field. This thesis topic left open to an all furtherer researcher. The researcher is able to gain lots of experience through this thesis. This type of thesis helps to build of confidence of researcher. The researcher is endowed with opportunities to expose her or him various interacting activities.

1. The tax payers should be highly literate which helps them to understand the tax law and act. The tax payers should not try to deceit the tax.
2. The national wide campaign should be launched to inform and explain tax laws. Tax programmed and tax benefits with the view of simulating dynamic participation of the public to pay tax through the media of radio, television, news paper and speech programmed in the educational institution.
3. Income tax management has its lengthy process of income tax assessment. tax payers never want the lengthy and time consuming of assessment. That is why, the management has to try to make it faster and short process of income tax assessment.
4. The development of manager and human resources professionals in tax administration as a priority in an effort to motivate to staff at all levels to participate in shaping and managing in an increasingly decentralized, local, knowledge-base network.
5. In the case of low-income developing countries like, the reactive tax administration must be reformed drastically in order to translate tax theory into practice. It is

necessary to implement computerization in order to establish and information the based tax system. The following measures are recommendation for the modernization of a tax administration of or low income developing country like Nepal.

- i) Unified functional organization,
 - ii) Human resource development
 - iii) Modern administrative technique
 - iv) Computerization
 - v) Tax payer education program
 - vi) Efficient system of appeals
6. Accounting records should be maintained honestly and they should be reliable. They must be honest and paid tax in time as per rules.
7. Commercial banks and finance companies have many drawbacks and delays in paying tax.
- i. Auditing of accounts of banks and finance companies are not done in time. One of the problems to collect the tax from these sectors is non-auditing of accounts.
 - ii. Account record by these sectors is not reliable
 - iii. Some banks have not paid tax yet whereas some have paid in advance. It makes complicate the tax application
- 8 The government and political conflict in the country should be stopped. Peace should be maintained for the better economic development of the country.
- 9 The government is vital in all sorts of economic system. It is a very powerful institution which can create a favorable business environment. The government should play the vital role in economic growth, social obligation, control monopoly, providing patent and stimulate private sector. The government should regulate and promote to the economic activates of private sector.
- 10 The government should give exemption on introducing new technology, fair economic environment and development product of the part of national economic developments.
- 11 Government should give banks and finance companies and environment of free competition,, should process of load and watch the activities of banks and finance

companies for generating more income tax. And make effective policy to reward them. They should have given full authorities and monitored frequently by NRB.

- 12 Special fee of 3.00percent of taxable income had been lived along with corporate tax .Now a days it is 1.5percentof taxable income. It is imposed to meet the additional expenses for the emergency period. Nevertheless the additional fee generates more tax collection to government but it makes harassment in tax paying. It also blocks in smooth tax administration because the taxpayer must try to practice tax evasion or tax avoidance more tax burden.
- 13 The present level of medical tax credit and life insurance premium is also is very low. It must be increased from Rs. 450 to some soundly amount and life insurance must be increased to Rs. 30,000.
- 14 Tax system should be simple, fair, equitable, efficient and effective. Tax administration has to motivate the taxpayers to paid tax so that; they have to give knowledge about tax to the public.
- 15 It should be the programmers to increase the tax paying

BIBLIOGRAPHY

Books:

- Adhikari, B. D. (2002), **Income Tax Law: Now and Then**, Kathmandu: Bhrikuti Academy Publications
- Bhattarai, I. and Koirala, G. P. (2009), **Tax Laws and Tax Planning**, Kathmandu: Asmita Books and Stationeries.
- Dhakal, K. D. (1998), **Income Tax and Hose & Compound Tax Law and Practice**, Kathmandu: Kamal Prakashan.
- Ghimire, B., (2006) **Study for the Measure of Tax Compliance Habit and Leakage Control**, Kathmandu: Ratna Pustak Bhandar.
- Kandel, P. R. (2008), **Tax Laws and Tax Planning in Nepal**, Kathmandu: Buddha Academic Publisher and Distributor Pvt. Ltd.
- Khadka, R. (1994), **Nepalese Taxation: A Path for Reform**, Kathmandu: Marburg Consult For Self-Help Promotion.
- Khadka, R. (2001), **Income Taxation in Nepal: Retrospect and Prospect**, Kathmandu: Ratna Pustak Bhandar.
- Mallik, V. (2003), **Nepalko Aadhunik Aayekar Pranali (Nepal's Modern Income Tax System)**, Kathmandu: Biddiyartha Pustak Bhandar.
- Matthew, R. & Stephanie C. (2007), **Enforcing Tax Compliance: Audit Probability Versus, Audit Effectiveness, HM Revenue & Customs: U.K.**
- Pant, P. R.(2009), **Business Environment in Nepal**, Kathmandu: Buddha Academic Publisher & Distributor Pvt. Ltd.
- Wolf, H.K., and Pant, P.R. (2008), **Social Science Research and Thesis Writing**, Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Reports and Articles

- Bohora, D. (2006), **Strategy for Auditing Voluntary Compliance in Taxation:** Kathmandu.
- Gill, J.B.S. (2003), **The Nuts and Bolts of Revenue Administration Reform**, U.S.A.
- Gill, J.B.S., (2000), **Diagnostic Framework for Revenue Administration**, Technical Paper, The World Bank.

- Kandel, P.R. (2006), **Tax Reforms much Improved, much to Improve**, Business Age, June
- Khadka, R.B. (1995), **An Evaluation of the Nepalese Income Tax System**.
- Luiz de M. (2008), **Avoiding the Value Added Tax: Theory and Cross Country Evidence**, OECD Working paper.
- OECD (2001), **Principles of Good Tax Administration**, OECD Practice note.
- OECD (2006), **Strengthening Tax Audit Capabilities: Innovative Approaches to Improve the Efficiency and Effectiveness of Indirect Income Measurement Methods**, OECD information note.
- OECD (2006).**Strengthening Tax Audit Capabilities: Auditor Workforce Management**, OECD information notes.
- OECD (2006).**Strengthening Tax Audit Capabilities: General Principles and Approach**, OECD information notes.
- OECD (2009).**Strengthening Tax Audit Capabilities: Monitoring Taxpayer Compliances**, OECD information notes.
- Thapa, T. and Dahal, Nepal (1997), **Aadhunik Nepalko Aarthik Itihaas**, Asia Research Center, T.U.

Thesis/Dissertation:

- Bhattarai, R.K. (2009). **Effectiveness of Corporate Income Tax in Nepal**. Master's Degree Thesis, Shanker Dev Campus, Tribhuvan University.
- Dhakal, T. N. (2008). **Income Tax Management in Nepal**, Master's Degree Thesis, Shanker Dev Campus, Tribhuvan University.
- Ghimire, D. P. (2008). **Income Tax in Nepal; Its Structure and Contribution from Public Enterprises to Government**. Master's Degree Thesis, Central Department of Management, Tribhuvan University.
- Ghimire, R. (2009). **A Study on ITA, 2002**. Master's Degree thesis Central Department of Management, Tribhuvan University.
- Shakya, B. R. (2009). **Effectiveness of Self Assessment Tax System in Nepal**. Master's Degree Thesis, Central Department of Management, Tribhuvan University.

Shrestha B. (2007). **Revenue Collection form Income Tax in Nepal: Problems and Prospects.** Master's Degree Thesis, Nepal Commerce Campus, Tribhuvan University.

Government of Nepal Publications:

Annual Report of Inland Revenue Department, 2008/09 Ministry of Finance, Government of Nepal.

Budget Speeches of various fiscal years, Ministry of Finance, Government of Nepal

Economic Survey of various fiscal years, Ministry of Finance, Government of Nepal

Finance Act of various fiscal years, Ministry of Finance, Government of Nepal

Income Tax Act, 1974, Ministry of Finance, Government of Nepal

Income Tax Act, 2002, Ministry of Finance, Government of Nepal

Income Tax Rules, 2002, Ministry of Law and Justice, Government of Nepal

Tenth Plan, National Planning Commission, Government of Nepal

Official Website:

Official website of all Sample Banks

www.ird.gov.np (official website of Inland Revenue Department, Nepal)

www.mof.gov.np (official website of Ministry of Finance, Nepal)

www.oecd.org (official website of the Organization for Economic Cooperation and Development)