

# **CHAPTER- I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is a developing country located in south Asia. Nepal is the homeland of Mount Everest, the highest peak of the world, birthplace of Lord Buddha, habitat of thousands of flora and fauna and residence of hospitable Nepalese people. Nepal is blessed with highest mountain ranges, temple natural resources and huge manpower. However, despite unlimited potential, the nation has still long way to go to achieve the goal of poverty alleviation. The economy is mainly based on agriculture. Agriculture accounts 39 percent of GDP and it constitutes 80 percent of workforce. It is noted that only by the improvement in agriculture sector, we cannot achieve a notable increase in per capita income.

Nepal is a landlocked country and cost of production is high because of the transportation cost from sea to the place of production, manufacturing industry and other technological sector is sharing less than 10 percent of GDP. Tourism is the most potential sector for Nepal but its development has been stagnated due to the poor security situation since last decade. The primary objective of the government in every country is to increase the welfare of its citizens. In this endeavor, the government has to carry out development plans; handle day to day administration, maintain peace and security and launch other public welfare activities. In performing these activities the government has to collect revenue and utilize that revenue for development purpose, administrative purpose as well as for other welfare activities.

Public expenditure or public spending denotes all those expenses made by the government under the subjects like: defense, administrative, economic/ development expenditure, social welfare expenditure etc. The government preserves and promotes the national identity, supplies the infrastructure for development, influences both the course of economic growth

and the distribution of its benefits and provides social services to meet the basic needs of the general people.

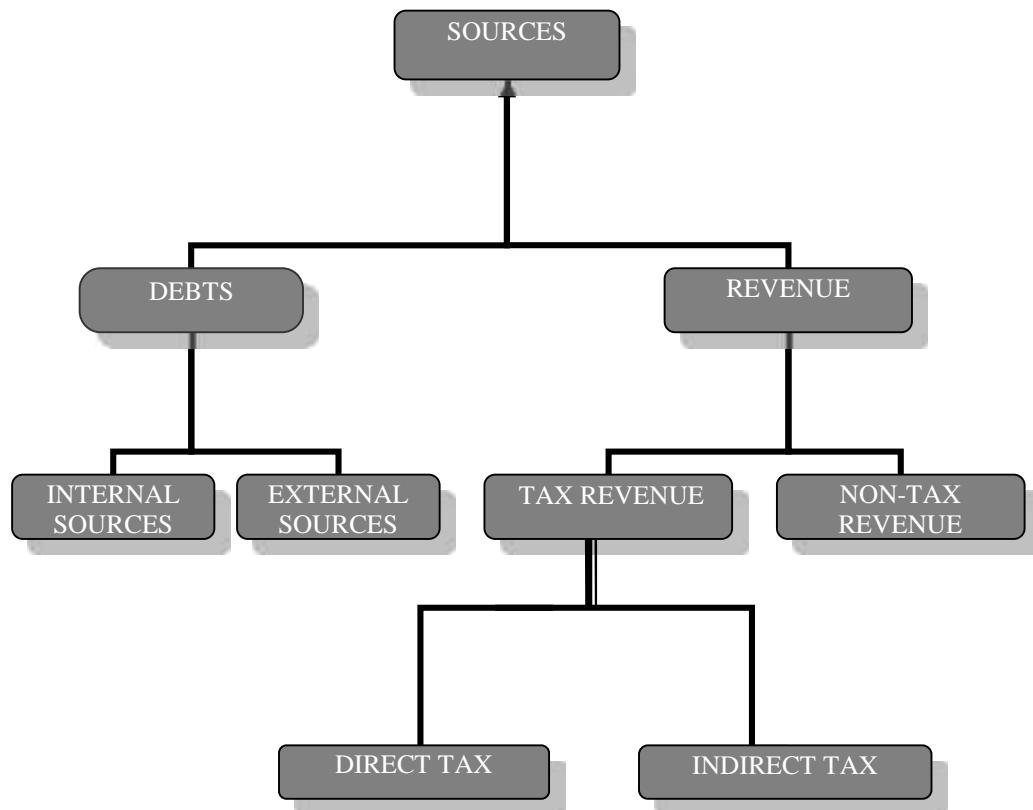
In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individual. It is a compulsory levy from individual, households and firms to central or local government. It is the legal duty of every citizen of the country to pay the tax honestly. It may be levied on income, property and even at the time of purchasing a commodity. It is charged (levied) by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. The purpose of taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes. (www. Investorwords.com) tax is computed and paid as prescribed in the law. If a person defies the tax payment, the may be punished in the court of law. A taxpayer is not entitled to compel the government, while paying taxes, to give something to him return of the amount he ha paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly.

"A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."  
( Bhattarai & Koirala)

"A taxes are general contribution of wealth levied upon person, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states."  
( Bhattraï & koirala)

A government required sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The government collects the requires resources mainly from two sources; debt and revenue, the debt can be collects either from internal or external sources. The internal debts are collected by issuing treasury bills, development bond, citizen, saving debt bond etc. the external debts are collected from outside the country ( by taking loaned from Asian development bank (ADB), world bank, foreign aids, grants and loans from different sources etc. the revue on the other hand, come basically from two sources: tax and non tax sources included different revenue like gift, grants, revenue from public enterprises, administrative revenue such as registration fees, fines and penalties. Tax sources include two sources direct and indirect. Aspirant tax is a form of tax paid by a person on whom it is legally imposed. It is collected directly burden. Taxpayers need to file tax returns directly to the government. Direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person in other words, the same person pays and bears the tax burden. It is the tax on income and property. Examples re income tax, death tax, gift tax, etc, an indirect tax are affirmed of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform function associated with filling tax returns indirect tax can be shifted. In indirect tax the impact and incidence of tax are on different [person. In other words the person paying and bearing the tax is different. It is the tax on consumption or expenditure example is: VAT. Excise duty, import duty, export duty etc.

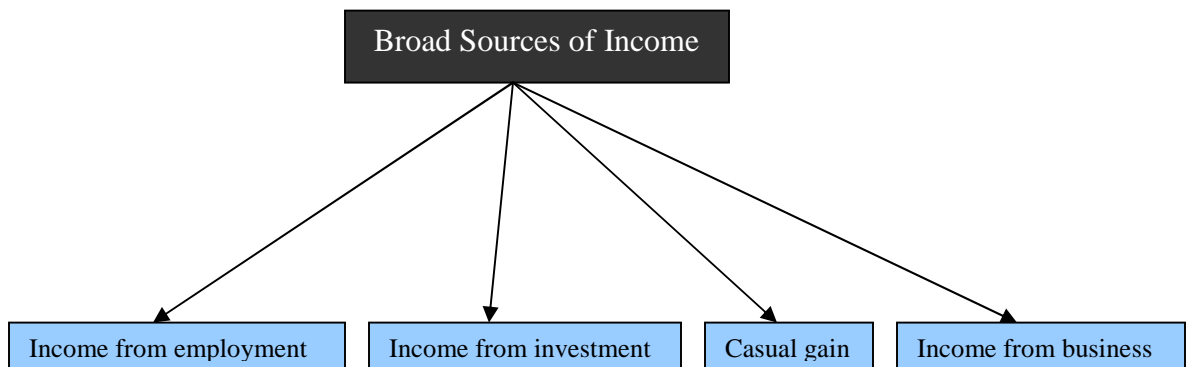
Figure: 1.1



## 1.2 Focus on the Study

Income tax is collected from various of profit incomes under the income tax act 2058 many sources of governmental revenue are being define properly such as revenue collected from public enterprise, semi- public enterprises, private corporate bodies, employee's income tax, income tax on investment, etc. and they are contributing in developing the country according to plan and process. So far as the topic but instead of different sources of income tax, capital gain tax is a part of it & comes under the title of income from investment and also has its own provision and contribution in to the country.

**Figure: 1.2**



**The Major Focus of the study are as Follows:**

1. Impact of provision of capital gain tax on stock market behaviour of Nepal.
2. Contribution of capital gain tax in the government's revenue collection.
3. Identifying some provisions that are beneficial to government and to investor too.
4. Structure of government revenue in tax.
5. Effectiveness of capital gain tax as being a reliable instrument for economic development and growth of the country.
6. Analyzing the problems and finding measures to overcome the problems associated with capital gain tax.

This study focuses under the topic the provision of capital gain tax. So, some meaning about capital gain tax and its provision are as follows:

Generally, capital gain tax, or CGT, is owed on any type of property that is sold for a profit taking a more accurate approach to determining a capital gain, we first need to completely understand what a capital assets is, then figure out the cost basic for the assets.

The cost basic, or simply "basis," is typically the amount of money paid for the assets; adjusted for any money spent "fixing" the assets. But before we go too far down that road, let's re visit the concept of a capital assets.

Nearly every item a person possesses for their personal use, or investments they might own, are considered capital assets. Familiar examples of capital assets include your home, cars furniture, shares of stock and bonds that are held in a personal account.

When you sell a capital assets for more than you paid for it, then you have a capital gain if you sell the assets for less than you paid for it, then you have a capital loss. But there are some very important exceptions to these rules that we will talk about later on. This includes assets such as inherited property, cars and homes

Therefore, capital gains (losses) mean any gains (losses) arising from transfer of capital assets: it is a gain (loss) realized from the disposal of capital assets. Technically, it is the difference between the purchase price (outgoing) and selling price (incomings) of capital assets. Earlier, income tax laws had not made any specific provision regarding taxation of capital gains (or losses). As a result, items of similar nature were treated differently. Capital gains except from disposal of business assets of an individual were not bought in to tax ET. In case of other taxpayer, capital gains were included under the heading of other source income. On the other hand, capital losses of similar nature were not allowed for deduction. Such diverse treatments had arisen confusions. Income tax, 2058 has avoided these confusions. However, the act doesn't provide the definition of capital gains. The act has treated depreciable assets, business assets and non-business chargeable assets as capital assets and gains realized from disposal of such assets as capital gain.

## **1.2.1 Provisions of Capital Gain Tax**

1. Assets which are classified under the provisions of capital gain tax, only non-business chargeable asset is only the main function of this study. As well as under the classification of non-business chargeable assets, stock market (i.e. securities) is the main curriculum of this study.
2. Non-business assets include a private residence owned continuously. For three years or more and lived in continuously or intermittently for a total period of three year or more; an interest of a beneficiary in a retirement fund; a private building and a piece of land which is disposed of for less than Rs. 1 crore and an assets that is disposed of by way of any type of transfer other than sales and purchases made within three generation.
3. The tax is imposed on the net gains, which are the total gain mines the total losses included unrelieved losses for the careen income year and those from a previous income year, which thus can be carried forward forever. Gain and losses are defined as the difference before incoming and outgoing for the asset or liability.
4. The loss from non- business chargeable assets can be recouped from seven year's from the profit of non-business chargeable assets. It cannot be recovered from business or other investment income.

### **1.2.1.1 Non- Business Chargeable Assets (stock market)**

Non- business chargeable assets means securities or an interest in an entity a well as land and building.

Non-business chargeable assets included:

Land – all types of land are considered as chargeable assets.

Building – all building (excluding some residential buildings) are considered as chargeable assets.

Securities i.e., share debentures. In an entity- all securities are considered as chargeable assets.

### **1.3 Statement of the Problem**

Financial status of each and every country affects by the economical policy & strategy and its implementation program of the national government. Due to of effective implementation towards act, it could be possible to grab the opportunity of developing the country. At first tax and non-tax revenue, collection would constitution to the country's welfare. Many sources of collection revenue are including under the national total revenue. Instead of many sources, capital gain tax (10%) has playing essential role to a rise the national revenue every year, due to of increasing public desire to invest in equity assets to gain huge amount of return from the market.

In contrast, it is good of increasing the government revenue but the government could not provide any alert-intention and serious towards the stock market development. Government of Nepal has not deliberating positive role to develop the area of stock market. Because this market is largely depend upon the government's positive co-operation and co-ordination too. For example in fiscal year 2011/2012. Government has introduced new capital gains tax(i.e. 10%), which is 33.33% lower rate than of previous year's. similarly, unstable political crisis such as, bandha, chakika-jam, major parties national strikes ands other unusual activities etc. are major courses that affect at Nepalese stock market, which creates the doubts in the economic stability.

Provisions that are available or introduced in the income tax act, 2058 are not sufficient. Because it could not meet the global standard, where it does not attract the foreign investment and internal investor's are not willing to invest in the stock market. So, some provisions such as short-term & long-term capital gains tax provision, exempt or



deduction on the behalf of individual or institutional investors respectively on the different circumstances as well as there is no any clarity regarding the write off of capital losses incurred. Therefore, the attractive provision should be introduced recently, to change the economical position of our country. Monetary policy also has direct influence in to the security market, so it cannot be deny or separate because monetary policy plays a decisive controlling function to avoid artificial rigging in stock prices to save investors from the of gambling – tendency speculators. But due to the lack of effective regulation, supervision, and implementation and due to changes of policy every time period, it has been causing negative influence to investors.

Therefore, government policy and strategy should be stable and hygienic. Government's job is not always to collect revenue by increasing the taxes rate changing the policy but also to solve the problems and to implement the act effectively into the field to manage the economical activities in the country. And governments have to launch many different new and scientific provisions that could attract foreign investment and internal investment in to the country's welfare. Government have to play position supportive role for the development of stock market because without the support of government hand there is no any simple possibility on the economic growth of the country and of stock market too. Again, I want to enforce that, government should implement the act effectively and have to play supportive role, then only it could bring good results in future.

#### **1.4 Objective of the Study**

According to the income tax act 2058, the taxes are collected under the different sources by government. They have their own scope of objectives. So, the objective of capital gain tax has also its own identity in to the national welfare. Therefore, the main objectives of the study are as follows:-

1. To find out the impact of capital gain tax on stock behaviors of Nepal.
2. To identify some provisions that is beneficial to government and to investor too.

3. To analyze the contribution of capital gains tax in the government's revenue collection.
4. To support and recommend the study.
5. To review and analyze the provisions of capital gain tax which are provided by the income tax act 2058.
6. To analyze the effectiveness and problems of capital gain tax in Nepal.

### **1.5 Limitations of the Study**

Each and every study has its own limitation and boundaries. This study also has some limitations. They are as follows:-

1. Major sources of data was secondary sources thus the error consisted in those sources may perceive in this research.
2. It has been concentrated only on the investors who do involve in to the stock market and contributed in national income by paying tax as a capital gain tax.
3. This study has been limited by the non-availability of the data.
4. This study is based in capital gain tax but the main research is deal with stock market of Nepal and its related norms.
5. Reliability of the secondary data has not been tested.
6. Due to time and resource constraint data and information which were collected might not be sufficient for the study.
7. Tax planning and tax avoidance are not taken is to consideration in this study.

## **1.6 Scheme of the Study**

**Chapter I – Introduction :-** in this chapter, the background of the study, focus of the study, statement of problem, objectives of the study, limitation of the study and scheme of the study.

**Chapter II – Review of Literature:** - in this chapter, review of related books, review of reports & articles, preview of research works have been viewed for this study and research gap of this study has to be concluded in this study.

**Chapter III- Research Methodology:-** in this chapter , research design, population and sample, nature and sample of data, data gathering procedure, data processing procedure and analysis of data.

**Chapter IV – Presentation and Analysis of Data:** - in this chapter, analysis of secondary data and analysis of primary data, revenue structure of Nepal, structure of tax revenue in the Nepal, structure of capital gains tax, contribution of capital gains tax in to the different head of revenue collection in Nepal, comparative summary sheet of securities transaction with previous years and empirical investigation.

**Chapter V – Summary, Conclusion and Recommendation:** - summary and conclusion of the study and further suggestions are included in this chapter.

**Bibliography and Appendix are presented in the last part of the study.**

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

This chapter deals with the review of relating to the topic of the study in more details and descriptive manner. For this purpose various books, journal and past thesis are reviewed. This study reviewed the available international literatures as well as national literatures. To review study, different books, reports, journals and research studies published by various institutions unpublished dissertations submitted by master level students have been reviewed. It is divided into three headings; conceptual review, review of related research studies and research gap.

#### **2.1 Conceptual Framework**

The government of any country needs sufficient money to lunch the development programs, to handle the daily administration, to keep peace and security and lunch other welfare program. When there is no money, no departments or lower level offices of the governme3nt work as the part of the body stop working when there is no blood circulation. The government collects revenue from different sources like tax , price of goods or services provided by the government, receipt from public enterprise, fees, fine, grants etc. in short, all the sources of government revenue can be divided into two parts- tax and non-tax. Tax is the major source covering most part of the government revenue.

Broadly, all sources of government revenue can be divided in to parts, i.e. tax and non tax.

##### **2.1.1 Concept of Tax**

Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honesty many economists are of the view that the tax is a compulsory payment to the government by taxpayer without any exception of some special return. On the other hand, a tax is a compulsory contribution from a person where it is law made or natural one to the government to defray incurred in the common interest of all without special references to special benefit conferred. It is personal obligation to pay tax an individual.

Similarly, tax is a compulsory legal contribution to the general expenses of the government by a person who has liability to pay tax from his/her income. A person who has taxable income is legally bound to pay tax, otherwise may be punished under existing rules and regulation. Thus taxes are general contribution of wealth levied upon person, natural or corporate to defray expenses incurred in conferring common benefit upon residents of the state- presently almost all the countries have their respective taxation system in their economy. It has become an indispensable source of revenue for the government.

### **2.1.2 Meaning of Tax**

Tax is a compulsory contribution from a person to the government without having any right to receive direct benefit from tax paid. Tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. A tax is not a price paid by one, for which he claims goods and services.

#### **According to classical economist Dalton**

“A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence.”

#### **According to Phhen**

“Tax is general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states”  
**(Dhakal, 2002)**

“A tax is compulsory payment to the government without expectation of direct benefit in return to the tax payers.” **(Pokharel, 2004)**

**According to Findlays Shirras.**

“A compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits.” ( **Bhattarai&Koirala**)

**According to Prof. Seligman**

“Compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred.” (**Kandel & Lamsal, 2011**)

From the above definition, it can be concluded that’s

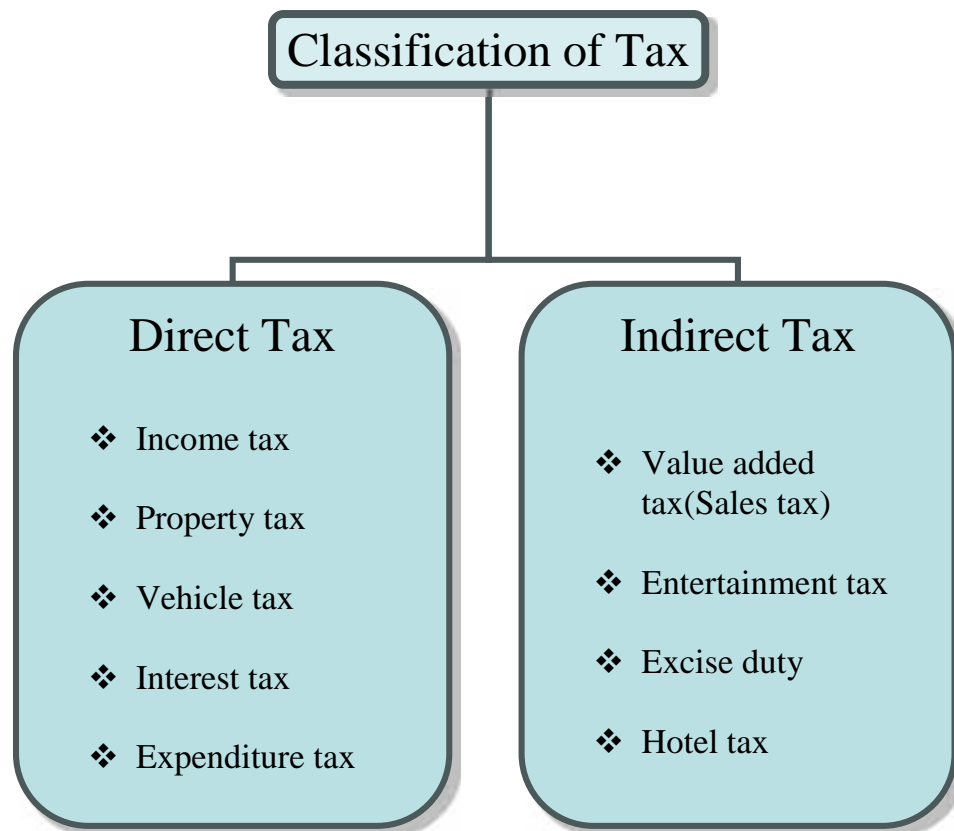
1. Tax is a compulsory levy imposed by the government.
2. It is lived on person as per the prevailing laws.
3. Those who pay tax do not get corresponding benefits from the government.
4. It is spent for common interest of the people.
5. It is collected from haves and spent for the interest of have not in the society.

We can define it is clear that a tax is a compulsory levy and these who are taxed has to pay it without getting corresponding benefit of services of goods from the government. Taxpayer does not have any right to receive equivalent benefit from the government. Amount collect through taxation is spent for common interests of the people and it is collect from natural and artificial person.

### 2.1.3 Classification of Tax

There are mainly two types of tax; they are given below, as follows;

Figure: 2.1



#### 2.1.3.1 Direct Tax

A direct tax is a tax paid by a person on whom it is legally imposed. (Prof. Dalton)

In direct tax the person paying and bearing tax is the same.

In the general sense, a direct tax is one paid directly to the government by the person to whom it is imposed.

### **Advantages of Direct tax**

1. Direct tax follows the principle of equity. The equity is based on ability to pay where the tax is distributed among different citizens proportionally.
2. Tax rates are classic and can be adjusted as per the fiscal requirement of the country when there is need of more revenue government can impose high or low the tax rate can be minimized.
3. It is equitable as it is imposed on person as per the property or income.
4. It is flexible. The government can change tax rate with the change in the level of property or income.

### **Disadvantages of Direct Tax**

1. Most of the earning has to pay to government in the form of the direct tax, so, it discourages saving and investment.
2. Direct taxes are considered harmful to backward or under developed economies.
3. The tax payers are limited in direct tax so the direct tax lacks mass participation.
4. It reduces the saving of common people and increases unemployment.
5. It gives mental pinch to taxpayers as they have to curtail their income to pay to the government.
6. The tendency of the tax evasions increase in the direct tax system because no one wants to cut down his or her income without the corresponding benefit.

#### **2.1.3.2 Indirect Tax**

An indirect tax is a tax imposed on one person but partly or wholly paid by another.  
(Prof. Dalton)

In direct tax the person paying and bearing the tax is different. It is the tax on consumption or expenditure.



## **Advantage of Indirect Tax**

1. Indirect taxes are generally included in the price of commodities, therefore, the payment of such taxes is not easy to evade by the payer.
2. Indirect taxes can be levied on each item. Some luxurious or harmful goods therefore may be taxed by heavy rate. Thus, it curtails the consumption on such goods or services and increase revenue.
3. Indirect taxes are more appropriate to developing countries because there are a large number of small taxpayers who are incapable to maintain proper accounts which is necessary for direct taxes. Thus more revenue can be collected at low cost.
4. In the direct tax the change of the tax exaction is very much lower in compare to the direct tax because even the tax payer does not feel that he is paying tax.
5. Indirect tax is elastic in nature. In is an important tool of the government to apply its fiscal policy.
6. It is convenient as the taxpayer does not have to pay a lump sum amount for tax.
7. The government can check on the consumption of harmful goods by imposing higher taxes.

## **Disadvantages of Indirect Tax.**

1. Consumers do not know that they are paying taxes. So, they lack consciousness regarding the use of the public revenue.
2. The poor people feel heavier burden than rich when mass consumption goods are highly taxed. Thus, indirect taxes are highly regressive and do not justify the can on of equity.
3. It is not equable to leave taxes on basis goods because the haves are not able to pay taxes in comparison to have.
4. It is uncertain. With the fluctuation in demand, the tax amount can also fluctuate.

5. It has bad effect on consumption, production and employment. Higher taxes reduce all of them.
6. Indirect taxes are paid through the seller where indirect taxes are include in the price of the product. Therefore, the taxpayers are not conscious about payment of tax to government.
7. It is not equable to leave taxes on basic goods because the haves are not able to pay taxes in comparison to taxes.
8. The agent may not to the government. Thus, there may be the change of consumer exploitation.

#### **2.1.4 Objectives of Tax**

Today, in every developed and developing country government should be required large amount of fund for public expenditure. So, tax has been a very essential element of a government from the very beginning of the state system. However, the main objective of tax has been different for different epochs. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing the resources. Till to the time of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government or providing security to an individual and society against institutions. The following words of Adam smith, regarding the duty of a state, clarify this statement clearly.

“According to the system of natural liberty, the sovereign has only three duties to attend to..... firstly, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, so far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice, and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals. To erect and maintain.”

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but to conduct development activities.

We can enumerate the objectives of modern taxation as follows:

- To control the production of certain goods.
- To increase the employment, saving and investment.
- To implement government policy.
- To have equitable distribution of income and property.
- To increase the revenue for welfare state.
- To increase the production of particular goods.

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

### **2.1.5 Canons of Tax**

There are different views regarding the requirements of good tax system. Adam Smith's view in this respect is generally accepted as the characteristics of good tax system. The canons that are given by Adam Smith are as follows:

- 1. Canon of Equality:** one of the Adam Smith's canons of taxation is the canon of equality emphasizing on paying the tax on the basis of the ability to pay. In the words Adam Smith himself,  
"The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities."

2. **Canon of Certainty:** Another quality of a tax system as laid by Smith is the canon of certainty. Certainty, in the words of Smith, is related to the time, method, manner and quantity of paying the tax. In his own words,

“The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person.”

3. **Canon of convenience:** Convenience is another quality that should be in a tax system. Most of the taxpayers are ordinary people who neither have sufficient tax-related knowledge nor the capacity to hire tax experts. That is why the tax system should be of such type that can be followed by ordinary people in the society. The time of payment and manner of payment should be convenient. In this respect, Adam Smith says,

“Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay.”

4. **Canon of Economy:** Adam Smith says, “Every tax ought to be as contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings in to the treasury of the state.”

That means, the cost of collecting the tax should be very small. There should be minimum difference between the amount that people take out of their pocket to pay tax and the amount that actually goes to the state treasury.

5. **Canon of Productivity:** canon of productivity says that every tax system should be those taxes only which provide adequate revenue. Taxes that do not provide sufficient revenue should be withdrawn.

6. **Canon of Flexibility:** flexibility indicates two things. First, a tax system should have the characteristic of revenue elasticity. There should be built-in tie-up between the economic activity of a country and revenue mobilization. Higher the economic activity, higher the revenue. Second, the tax system should be of that type which provides revenue as per the necessity of the situation. If there is need of higher revenue, the tax system should provide as per the needs.
7. **Canon of Diversity:** tax system should not totally depend on one source of revenue. It is risky to the government to depend upon only one source. That means the sources of taxation should be diversified as far as possible. This principle says that tax should be levied on various stages and various sources. There should be multiple taxes in place of single tax. Similarly, a tax system should be to that type, the burden of which is diversified on the people of different walks of life.
8. **Canon of Simplicity:** simplify means understandable. The tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate includes the taxpayer to compliance.
9. **Canon of Uniformity:** uniformity in this context means uniformity in depreciation system tax rate, stock valuation system, accounting method, dividend distribution system, accounting system, appeal and penalty system, method of payment of tax and time of the payment of tax.

### **2.1.6 Historical Development of income tax laws in Nepal**

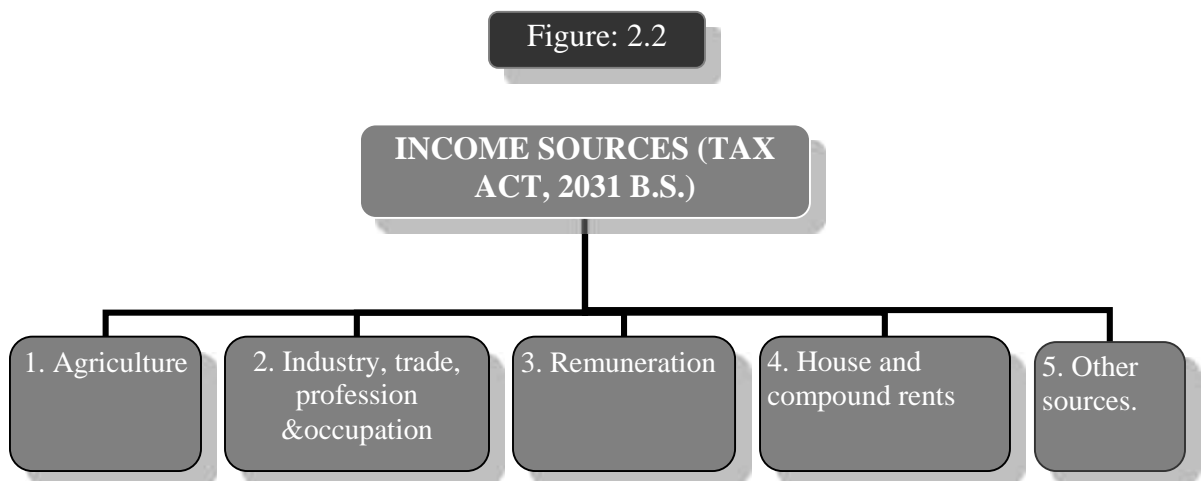
Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 A.D. to finance the war fought with France. USA introduced income tax in 1862 A.D. to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860 A.D., several experiments were

made from 1860 A.D. to 1866A.D. and finally the systematic income tax legislation was enacted in 1886.

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951 A.D., the ten finance minister his budget speech declared the intention of the government to introduce and income tax.

Attempts were then made to introduce income tax in subsequent years. In 1954, an income tax with Rs 10000 basic allowance and progressive taxes ranging from 5 to 25% was proposed, due to political instability, it could not be introduced until 1958 A.D.

The first elected government in 1959 A.D. finally introduced business profit and salaries tax act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years, experience of income tax, the government replaced the prevailing tax act, by income tax act, 1962. The coverage was then extended in the act. In 1974 A.D., income tax act, 1974 A.D. (2031 B.S.) was enacted. The act classified income sources in to five groups



The parliament of Nepal enacted income tax act, 2002 A.D. (2058 B.S.) with effective from 1 April 2002 A.D. (chaitra 19, 2058 B.S.) to entrance revenue mobilization through. Effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, this Act has replaced income tax Act, 1974 A.D. (2031 B.S.), which was amended for eight times and existed for a period of 28 years. The government of Nepal framed income tax rules, 2059 in 2059 B.S. to help clarify the Act.

## **2.2 Income Tax Act, 2002 (2058 B.S.)**

Income tax Act, 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this Act as compared to income tax Act, 2031

Income Tax Act, 2031 was revised for 8 times in 2034,2036,2037,2041,2047,2043,2046, and 2049 B.S., since 19<sup>th</sup> chaitra, 2058, income tax Act, 2058 has been introduced in Nepal. This act was brought in Nepal to avoid the following defects of income tax Act, 2031:

1. Narrow based of tax.
2. Taxing only the income originated in Nepal
3. Dispersion of tax related acts, i.e. income tax related provision was given in different acts.
4. Low penalty rate to tax evader.
5. Incompatible to self- assessment system and
6. Unsuitable to modern economy.

Due to all these defects of the old act, there was need of introducing the new tax act. Income tax Act, 2058 is brought by Nepal to fulfill this vacuum.

### **2.2.1 Features of Income Tax Act 2058**

1. The Act has broadened the tax base. Tax rates have been spelled out in the act. The tax rates and concessions have been harmonized on equity grounds.
2. All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different Acts. This Act has been made super in regard to all income tax matters.
3. The Act has provided liberal loss set- off and carry forward/back ward provisions. Interhead adjustment of losses has been clearly specified. Such provision has been made from international perspective.
4. The act has first introduced a provision for administrative review tallow the tax administration to correct mistakes made by tax administrators internally.
5. The Act has made provisions for a stringent fine and penalty for the defaulters.
6. Global incomes of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
7. The Act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
8. The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
9. The scope of discretionary interpretation of the tax administration has been drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.



10. The Act has introduced a pool system of charging depreciation; a provision has also made for depreciation intangible assets. Assets are broadly classified in to five categories. The depreciation rates are 5%, 25%, 15% for pool A, B, C and D respectively which are based on diminishing balance method of depreciation for E the rate is based on straight-line method.
11. The Act has first introduced the taxation of capital gains. Capital gains are taxed explicitly under act after four decades of the introduction of income tax. In case capital gains; only the gains from the causal sales of real property (land and building) and securities are subject to capital gains tax at a flate rate of 10%. There is also a clear provision for adjusting net loss during the fiscal year.
12. The appeal system has been further streamlined by making mandatory for the tax payers to file an objection with the inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

### **2.2.2 Objectives of Income Tax Act 2058**

1. To increase the base of taxation.
2. To bring all the income generating activities within tax net.
  1. To bring all the income tax related provisions within one act,
  2. To make income tax related provision clear and transparent
  3. To interlink Nepalese tax system with tax system of other countries
  4. To make tax system based on account
  5. To minimize tax avoidance and tax evasion
  6. To make tax system compatible to modern economy
  7. Reducing the scope of discretionary interpretation of the tax administration there by ensuring simplicity uniformity and the transparency.
  8. Separating administrative and judicial responsibilities

9. Defining the power as well as authority of the tax administration, distinguishing taxpayer's violation of civil duties and criminal offences.
10. Further streamlining the appeal system by making it mandatory for the taxpayers to file an objection with IRD of taxation before appealing to the revenue tribunal.
11. To maintain the welfare state.

### **2.2.3 Meaning of basis terms used in Income Tax Act 2058**

#### **1. Income (sec.2 ja)**

Income means a person's income from any employment, Business, or investment and the total of that income calculated in accordance with this Act.

#### **2. Income-Year (sec.2 jha)**

Income year means the period from the 1st of Shrawan of a year to the end of Ashadh of the following year.

#### **3. Assessment**

Assessment not is the process of ascertaining the tax liability. It is the process and art of checking the documents in which the details of calculation of income and tax are recorded. As per the tax law, it includes

- ❖ Compulsory assessment that an assesses should made each year under section 99,
- ❖ Jeopardy assessment under section 100,
- ❖ Amended assessment under section 101 and
- ❖ Assessment of interest and fees under section 122.

#### **4. Company ( sec. 2 da)**

Company means a company incorporated under the company laws in force. The following institutions will also be treated as company for the purpose of tax.

- ❖ Any corporate body established under the laws in force.
- ❖ Any unincorporated union, board, association or society or group of persons other than a partnership or a proprietorship firm (whether or not registered) or a trust.
- ❖ A partnership firm ( whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, a joint venture.
- ❖ Foreign company; and any foreign institution prescribed by the Director-General.

#### **5. Individual (sec.2 wa)**

Individual means a natural person and a proprietorship firm whether registered or unregistered owned by the person and a couple making an election as single natural person under section 50.

#### **6. Entity (sec. 2 bha )**

Entity means the following institutions or organizations:

- ❖ A partnership, trust, or company
- ❖ A village Development Committee (V.D.C.), a Municipality or District Development Committee (D.D.C.).
- ❖ Government of Nepal
- ❖ A foreign government or a political subdivision of the foreign government, or a public international organization established under a treaty.
- ❖ A permanent establishment (mentioned above) of an organization or a body that is not situated in the country in which it is a resident.

## 7. Resident Person (sec. 2 Ka Nga)

I. in respect of an individual:

- ❖ Whose normal place of abode is in Nepal ;
- ❖ Who has resided in Nepal for 183 days or more during a continuous period of 365 days
- ❖ Who is deputed by government of Nepal to a foreign country in any time of the income year?

ii. A partnership firm

iii. In respect of a trust, such trust:

- ❖ Which is established in Nepal
- ❖ The trustee of which is a resident person in an income year; or
- ❖ Which is controlled by a resident person or a group of persons comprising such a person, directly or through one or more interposed entity?

Iv. in respect of a company, such company:

- ❖ Which is incorporated under the laws of Nepal
- ❖ Management of which is effective in Nepal in any income year.

v. Government of Nepal

Vi. in respect of an entity of any foreign government or provincial and local government under that government, such entity

- ❖ Which is established under the laws of Nepal
- ❖ Management of which is effective in Nepal in any income year.

vii. An organization or entity established under any treaty or agreement

viii. A foreign permanent establishment of a non- resident person situated in Nepal. A person who is not a resident person is considered as a non- resident.

### **8. Partnership (sec.2 ka. Pa)**

Partnership means a firm (whether or not registered) that has fewer than 20 partners. However, the term does not include a proprietorship firm (whether or not registered) or a joint venture.

### **9. Exempt Organization (sec. 2 Dha)**

Exempt organization means the following entities:

- ❖ Following entities registered with Inland Revenue Department as tax-exempt entity:-
  - A social, religious, educational or charitable organization of public character registered without having a profit motive.
  - An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain by it or by its members.
  
- ❖ A political party registered with the Election Commission.
  
- ❖ A Village Development Committee, a municipality or a District Development Committee.

### **10. Retirement (sec. 2 Gha)**

Retirement fund means any entity established and maintained solely for the purposes of accepting and investing retirement fund contributions in order to provide retirement fund payments to individuals who are beneficiaries of the entity or a dependent of such an individual.

### **11. Retirement payment (sec.2 Nga)**

Retirement payment means a payment to

- ❖ An individual in the event of the individual's retirement, or
- ❖ A dependent of an individual in the event of the individual's death.

**12 Retirement Contribution (sec. 2 Cha)**

Retirement contribution means a payment made to a retirement fund for the provision or future provision of retirement payments.

**13. Business (sec. 2 Ka. Ja)**

Business means an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business. However, the term does not include employment.

**14. Investment (sec. 2 Ka. Kha)**

Investment means an act of possessing or investment one or more assets. But the term excludes act of holding assets for personal use by the person owing the asset and employment and business. However, the act of holding not-business chargeable assets is considered as an investment.

**15. Employment (\*sec. 2 jna)**

Employment includes a past, present or prospective employment. It is the return for the provision of labour.

**16. Asset 9 sec. 2 Ka. Dha)**

Asset means a tangible or intangible asset. It includes currency, goodwill, know-how, property and an owner's interest or ownership in foreign branch, a right to receive income whether present or future and part of such asset.

**17. Tax ( sec. 2 Dha)**

Tax means income tax imposed under this act and includes following payment:

- ❖ Expenses incurred in the process of creating charge and performing

auction of the property of tax creditor by the department.

- ❖ Amount payment by a withholding agent or withholder or amount payment by an installment payer and on assessment
- ❖ Amount payable by way of interest and penalties.
- ❖ Amount payable by way of fines in order of the department.

### **18 Trading stock ( sec.2 Ka Yna)**

Trading stock means assets owned by a person that are intend to be sold in the ordinary course of a business conducted by the person, work, in-m progress on such assets, and inventories of materials to be incorporated in to such assets. However, the term does not include a foreign currency asset. Motor cars of an automobile dealer are trading stocks, for example.

### **19 Business Asset (sec.2 Ka. Ta.)**

Business asset means an asset to the extent to which it is used in a business. However, it excludes trading stock and a depreciable asset of business. A piece of land used in business is an example of a business asset.

### **20. Non-business Chargeable Asset (sec. 2 Da)**

Non-business chargeable asset means securities or an interest in an entity as well as land and buildings. However, it excludes the following assets:

- ❖ Business asset, depreciable asset or trading stock.
- ❖ A private residential house of an individual that has been owned continuously for at least ten years and resided for a total period of at least ten years either continuously or intermittently.
- ❖ A private residential house and land of an individual that is disposed in less than five million (fifty lakh) rupees. Or,
- ❖ Asset of an individual that is disposed off by way of any type of transfer other than sales and purchase made within three generations.

**21. Depreciable Asset (sec.12 Ka. Ra.)**

Depreciable asset means an asset to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear, obsolescence, of the passing of time. however, the term does not include trading stock.

**22. Associated Person ( sec.2 Ka. Na.)**

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other. It includes:

- ❖ An individual and relative of the individual or an individual and a partner of the individual.
- ❖ A foreign permanent establishment and its owner and
- ❖ An entity and a person who, either alone or together with an associate or associates controls or may benefit from so percent or more of the right to income, capital, or voting power of the entity, as the case required, either directly or through one or more interposed entities;

However, the term does not include employee and persons prescribed by the department as not being associate persons.

**23. Long-term Contract (sec.2 Pha)**

Long-term contract means such contract, the term of which exceeds 12 months.

**24. Withholding Agent ( sec. 2 Ka)**

Withholding agent means a person required to withhold tax at the time of payment for employment, investment return, service fees or contract.

**25. Final withholding payment (sec.2 ga)**

Final withholding payment means a payment of dividend, rent, gains, interest and



payment made to a non-resident person to be made after withholding final tax.

**26. Withholdee (sec.2 Na)**

Withholdee means a person receiving or entitled to receive a payment for employment, investment return, service fees and contract from which tax is required to be withheld.

**27. Lease (sec. 2 La)**

Lease means a temporary right of one person in respect of an asset of another person, other than money. It includes a license, option, rental agreement or tenancy.

**28. Natural Resource Payment (sec. 2 Sa)**

Natural resource payment means amounts of any of the following payments.

- ❖ Amount received for the right to take water, minerals or other living or non-living resource from the land or
- ❖ Amount as calculated in whole or part by reference to the quantity or value of water, minerals, or a living or non-living resource taken from the land.

**29. Rent (sec. 2 Sha)**

Rent means all payments including premium received from lease of tangible asset including rent of house. However, it does not include a natural resource payment.

**30. Royalty ( sec. Ka Ka)**

Royalty means any payment under a lease a lease of an intangible asset. It includes any payments made for

- ❖ The use of, or the right to use a copyright, patent, design, model, plan, secret formula, or process or trademark
- ❖ The supply of know-how

- ❖ The use of, or right to use, a cinematography film, video tape, sound recording or any other like medium and the supply of information concerning industrial, commercial or scientific experience
- ❖ The supply of assistance ancillary to a matter referred to above
- ❖ A total or particular forbearance with respect to a matter referred to above.

However, the term does not include a natural resource payment.

### **31. Service Fee ( sec. 2 ka Ma)**

Service fee means any fee paid to a person based on market values, for services rendered by the person. It includes a commission or a meeting, management, or technical service fee.

### **32. Permanent Establishment ( sec. Ka Da)**

Permanent establishment means a place where a person wholly or partly carries on a business, and includes the following places:

- ❖ A place where a person wholly or partly carries on a business through an agent, other than a general agent of independent status acting in the ordinary course of business as such;
- ❖ A place where a person has, is using, or is installing substantial equipment or substantial machinery;
- ❖ One or more places within a country where a person furnishes( whether through employees or otherwise) related services ( including technical, professional, or consultancy services) for a period or periods aggregating more than 90 days within any 12 month period; or
- ❖ A place where a person is engaged in a construction, assembly, or installation project for 90 days or more, including a place where a person is conducting supervisory activities in relation to such a project.

### **33. Gift ( sec. 2 Yna)**

Gift means a payment that is without consideration or a payment with

consideration to the extent the market value of the payment exceeds the market value of the consideration.

#### **34. Turnover ( sec. 2 Ta 1)**

Turnover is defined as a total of the inclusions calculated for the purpose of computing income from employment ( sec. 8), business ( sec. 7) Or investment ( sec. 9)

#### **35 Adjusted Taxable Incomes ( sec. 2 Na 1)**

Adjusted taxable income of a person for an income year is the taxable income without reducing donation ( sec. 12) and without deduction of pollution control cost (sec.17) , R & D cost ( sec. 18 ) and excess interest expenses paid by an exempt- controlled resident entity to controlling entity or related parties ( sec. 14 (2)).

#### **36. Relative ( sec. 2 Ba )**

Relative means a spouse, children (including adopted children) parent, grandparent, sibling, aunt, uncle, nephew, niece, grand son, grand daughter, brother in laws, and sister in laws and father in laws and mother in laws of an individual.

#### **37. Interest ( sec. Ka Jha)**

Interest means the following payments or gains-

- ❖ Payment made or included under a dept obligation that is not a repayment of capital;
- ❖ Any gain realized by way of a discount, premium, swap payment, or similar payment, and
- ❖ The portion which is treated as interest in the payment made to a person under an annuity or by a person acquiring an asset under an installment sale or the use of an asset under a finance lease.

### **38. General Interest Rate (sec. Ka. Ba)**

General interest rate means the rate of interest by ten percent per annum.

### **2.3 Surce of Income Tax**

Income tax act 2031 of Nepal has defined the income just like the Indian income tax act. It defines income as the cash or in kinds which are received from agriculture, industry, business, profession or vocation, remuneration, house and land rent and other sources.

Income tax act, 2058 is also not different is respect of defining the income. Although it has reduced the sources of income from five to four. They are broads or sources of income

1. Income from business
2. Income from investment
3. Income from employment
4. Casual gain

#### **2.3.1 Business income**

Generally, business is a commercial activity undertaken with a profit motive. Income tax act, 2058 has define business as an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present or prospective business. By contrast to employment, business is an earning activity typically consisting of not only the provision of labor but of the combined provision of labor and capital.

A person's income from a business for an income year is the person's profit and gains from conducting the business for the year. This type of income includes service fees, amount derived from the disposal of trading stock and net gain from disposal of business assets. Income from a business can be accounted for either on a cash basis or an accrual basis. The individual has option to select cash or accrual basis of accounting to account for business income. A company shall always for tax purposes account on an accrual basis.

### **2.3.2 Employment income**

Income from employment is basically remuneration received or accrued periodically for service rendered as a result of expressed or implied contract. It is the payment or benefits received either in cash or kind from the employment or his associate in exchange of labor service. It is the remuneration from the employment of an individual. It includes all types of remuneration received from employment, such as salary, fees. Wages, over time pay, holiday pay, bonuses, commissions, tips, gratuities or other non- monetary benefits ( i.e. vehicle facility, quarter facility), from tax perspective, the employment income can be defined in terms of whatever compensation an employee receives for a service that the government will tax.

### **2.3.3 Investment income**

Generally an investment refers to purchase of an assets. Or item with the hope that it will generate income or appreciate in future. Inane economic since, an investment is the purchase of goods that are not consumed today but are used in future to create wealth. In finance, an investment is a monetary assets purchased with the idea that the asset will provide income in the future or appreciate and be sold at higher prices. Income tax act, 2058 has defined investment as an act of holding or investing one or more assets. But, it excludes the act of holding of assets fro personal use by the person owing the assets and employment or business. However, the act of holding non-business chargeable assets by the person fro personal use is considered as an investment.

Income from investment refers to income generated from the capital related activities; it is, in fact, a residual income, which is computed only after computing business and employment income. A person's income from as investment for an investment for the year.

### **2.3.4 Casual Gain**

Casual gain refers to lottery, gift, prize, winnings (Basis jitauro) and other gains received casually.

The income from above heads can be obtained either from domestic sources or foreign sources. An income is said to have a domestic source if it is earned or generated in Nepal. Income earned or generated abroad. All domestic income irrespective of who earns that income (i.e. whether resident or non-resident) are subject to income tax in Nepal. But in case of foreign income only resident's such income is taxed in Nepal.

## **2.4 Capital Gain Tax**

### **2.4.1 Meaning of Capital Gain**

Generally capital gains (losses) means any profit or gains (losses) arising from transfer of capital assets. It is a gain (or loss). Capital gain (loss) is defined as a gain (loss) realized from the disposal of capital assets by a taxpayer. It is the difference between the purchase price (outgoings) and selling price (incoming) of capital assets. Earlier, income tax law had not made any specific provision regarding taxation of capital gains (losses). As a result, items of similar nature were treated differently. Capital gains except from disposal of business assets of an individual were not brought into tax bracket. In case of other taxpayer, capital gains were included under the heading of other source income. On the other hand, capital losses of similar nature were not allowed for deduction. Such diverse treatments have arisen confusion. Income Tax Act 2058 has avoided these too much confusion. However the act does not provide the definition of capital gains.

The act has treated depreciable assets, business assets and non business chargeable assets as capital assets and gains realized from disposal of such assets as capital gains.

## **2.4.2 Classification of Assets**

Income Tax Act, 2058 has classified assets into five categories.

They are as follows:

- 1. Trading stock,**
- 2. Depreciation Assets,**
- 3. Business assets,**
- 4. Non-business chargeable assets, and**
- 5. Non- Taxable asset**

Basically, there are two types of rates used in different countries of the world for taxing the capital gain. Some favor taxing capital gain at special tax rate, whereas others favor ordinary treatment. Note that ordinary treatment means taxing the capital gain at normal rate.

In Nepal, capital gain tax as such was introduced only from the budget of 2058/59. The capital gain tax rate is charged 10 % as per the act. Chapter 8 of this act has made detailed.

### **2.4.2.1 Trading Stock**

Trading stock means assets owned by a person, that are intended to be sold in the ordinary course of a business conducted by the person, work-in-progress on such assets, and inventories of materials to be incorporated into such assets.

### **2.4.2.2 Depreciable Assets**

Depreciable asset means an asset to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear, obsolescence or the passing of the time. However, the term does not include trading stock. In above example, the automobile used by the automobile dealer for its own purpose is a depreciable asset.

### **2.4.2.3 Business Assets**

Business asset means an asset to the extent to which it is used in a business. However, the term does not include trading stock or a depreciable asset of a business. A piece of land used in business is an example of a business asset. The term itself suggests that only a business firm will have business assets.

#### **2.4.2.4 Non-Business Chargeable Assets**

Section 2 (ad) has defined non-business chargeable assets as land, building, interest in an entity, and securities. So the inclusive list of non-business-chargeable assets covers land and building, shares of a company, ownership of an entity, debenture, bonds, and other securities. It is clear from the definition that personal vehicle, ornaments, furniture, kitchen equipment, etc owned by an individual do not come under non-business-chargeable assets, and so net profit from the disposal of these assets is beyond the purview of income tax.

'Non-business-chargeable assets' is a combination of two compounds: non-business-chargeable assets and chargeable assets. Some of the non-business-chargeable assets, because gains from the disposal of those assets are not chargeable to income tax. So, non-business-chargeable assets (mean those non-business-assets when disposal of gains from the disposal) are subject to income tax.

An individual or an entity may own non-business-chargeable assets. An assets held by an entity not for its business use in a non-business-chargeable asset for it. Suppose a bank has acquired a land and a building in settlement of a loan given to a company. Of the bank puts the property in its use either by opening its office or by letting it out, the land is classified as business asset and the building is classified as depreciable asset. But if the land and building are not in use of the bank and it has a plan to sell them, the property is classified as non-business-chargeable asset, and in the terminology of banking business, such property is called, 'Non-Business Chargeable Assets'

Business assets and depreciable assets are excluded from the definition of non-business-chargeable assets owned by an individual or an entity.

For an entity all the non-business assets are non-business chargeable assets. But in the case of an individual, the following assets are also excluded from the definition of non-business-chargeable assets:

- ❖ A private residence owned continuously for three years or more; and lived in continuously or intermittently for a total period of three years or more.



- ❖ An interest of a beneficiary in a retirement fund.
- ❖ A private building and a piece of land which is disposed of for less than Rs. Ten millions.
- ❖ Assets that is disposal of by way of any type of transfer other than sales and purchases made within three generations.

An income from the disposal of an asset, which is not included in the definition of non-business- chargeable assets, business assets or depreciable assets, is free from income tax.

#### **2.4.2.5 Non-taxable Assets**

Assets other than above are non-taxable assets and include private properties such as vehicles, jewelries, precious and non-precious metal, stones, gain on foreign exchange, household goods, and personal assets. Gain from such assets in exempt from tax.

It is clear from the above explanation that,

- ❖ Trading stock and business assets are concerned with business only,
- ❖ Non-business chargeable assets are concerned with investment only, and
- ❖ Depreciable assets may be of business or investment.

#### **2.4.3 Disposal of Assets and Liabilities**

Income Tax Act, 2058 (sec. 40) has deals with disposal of an assets or liability. According to that section, disposal of assets means parting with the ownership of the asset. The conditions of disposal of assets are distribution, merger, leasing, cancellation, redemption, destroying, loosing, expiring; surrendering etc. in the same way, the disposal of liability includes when there is parting with the obligation constituting the liability. It includes the conditions when the liability is satisfied, cancelled, released, expired, or merged with another liability or an asset.

#### **2.4.4 Types of Disposal**

In one way, disposal can be of two type- real disposal and deemed disposal. If a person has transferred the asset of liability with due consideration to another person, it is real

disposal. The examples are sale of assets. In contract, if the ownership is left without any consideration, it is called deemed. If any liability becomes settled without making actual payment, it is called deemed disposal of liability. The examples of the deemed disposal is: expiry of an individual, total incomes exceed total outgoings, disclaimer by the claimant, change in ownership of an entity, person becomes non- resident, finance lease etc.

As per income tax act, 2058 he following can be the types of disposal:

**1. Disposal of an asset or liability with retention ( sec. 41 )**

In case of disposal of assets with retention, the person with assets is assumed to be received the amount equal to the market value of assets. The expenditure made in relation to assets is assumed to be equal to the amount of the value of received assets. In case of liability disposal with retention, it is assumed that the person has spent the amount equal to the value of disposed liability and the income in this respect is assumed to be equal to the value of liability.

**2. Disposal by weary of installment sale or finance lease ( sec. 42)**

In case of the disposal through installment sale or finance lease, the value of the leased assets at the time of the disposal is assumed to be the value equal to the marled value of assets.

**3. Transfer of assets to spouse or former spouse ( sec. 43)**

It is assumed that the disposer has received the amount equal to the net expenses incurred in relation to the assets. The same amount is assumed to be spent by receiver too.

**4. Transfer of assets on death ( sec. 44)**

It is assumed that the disposer has received the amount equal to the market value of assets in relation to the assets. The same amount is assumed to be spent by the receiver too.

**5. Transfer between associates and other non- market transfer (sec. 45)**

If assets are transferred without any consideration, the value of adders to be assumed is market value at the time of disposal or net expenditure made in relation to that asset whichever is higher. If the asset is going to be business asset of the receiver, the value to be assumed is net expenditures made in relation to the asset immediately before making the disposal.

**6. Involuntary disposal of assets or liability with replacement ( sec. 46)**

This section will be applicable where the person acquires ownership of a replacement asset of the same type within one year of the disposal, and requests in writing to apply this provision. In this case, the value of the assets received by the disposal is assumed to be net expenditure made immediately before the disposal in relation to disposal assets plus the excess of the amount if the disposal value is greater than the expenditure made in relation to replacing (new) assets. The amount of expenditure is assumed to be the value of the assets received by the disposal immediately before the disposal in relation to disposal assets plus the excess of the amount if the expenditure made in relation to replacing (New) assets is greater than the disposed value of the old assets. In relation to the liability, just opposite will be the case.

**7. Disposal of assets and liabilities by merger ( sec. 47 )**

If one asset or liability is disposed or merged due to acceptance of any other asset or liability, the following will happen. (1) The disposal should take that an amount equal to the value of disposal asset or liability is received. (2) The receiver should think that an amount equal to the value of disposed asset or liability is spent.

**8. Disposal of assets and liabilities by splitting ( sec. 48)**

Where the assets and liabilities are splitted to any other, disposal without acquiring new assets or liabilities is assumed if the disposal assets or liabilities are of permanent nature in contrast, if the disposal assets are of temporary nature, no disposal is assumed.

### **1. Disposal through the appropriation of assets and liabilities ( sec. 49)**

The expenditures and incomes related to the disposal of a particular asset or liability should be attributed to the same asset or liability on the basis of the market value at the time of the disposal. If part of the asset or liability is disposal, proportionate income or expenditure on the basis of the market value immediately before the disposal should be attributed to the asset or liability.

### **2.5 Nepal Stock Exchange ( NEPSE)**

Nepal Stock Exchange, in short NEPSE, is established under the company act, operating under Securities Exchange Act, 1983.

The basic objective of NEPSE is to impart marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.

Government of Nepal, Nepal Rostra Bank, Nepal Industrial Development corporation and members are the shareholders of NEPSE.

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

Government of Nepal, under a program initiated to reform capital market converted securities exchange center into Nepal Stock Exchange Ltd. in 1993. NEPSE is operated under Securities Exchange Act, 2063. Government of Nepal (58.66%), Nepal Rastra Bank (34.60%), Nepal Industrial Development Corporation (6.12%), and Licensed Members (0.62%) are its shareholders.

NEPSE is a fully governmental corporate body, where its main objective is to play a role of creating environment of secondary market by trading of securities after primary issuance. Normally, such trading are organized at stock exchange or at over the counter market (OTC market). Although, both platforms are provided by NEPSE, the OTC market has not experienced any trading till now and all exchange of securities is performed at the floor of stock exchange. As well as it's another important objective is to inform as well to provide important and essential information to their customers (investors). By providing secondary market's indicators like amount of share traded, NEPSE Index, Annual Turnover, Turnover to market capitalization and the GDP ratios.

According to the change of global market environmental exercise, NEPSE has also changed their traditional process into the process of automation; NEPSE started internationally compatible computerized trading system, Automated Trading System (ATS) from 24 August, 2007. this system is able to eliminate all possible human errors in the open out cut trading procedures. Several international practices are incorporated to make the system internationally applicable and modifications are also made to customize the existing rules and regulations of the country.

Therefore, NEPSE is a well platform to all level of investors to gain a profit by investing their capital. As well as after the implementation of Automated Trading System (ATS), since August 24, 2007 and extension of trading hour, trading volume as well as number of transactions increased significantly during the fiscal year as compared to the previous years.

## **2.6 Monetary Policy of Nepal**

Following the Nepal Rastra Bank (NRB) Act, 2002, the NRB has been formulating the annual monetary policy and making it public since 2002/03. The bank had released the monetary policy statement of 2007/08 on July 23, 2007 and its midterm review on March 14, 2008. As per the NRB Act 2002, the bank has been releasing the monetary policy statement consisting of brief review of economic and financial situation, appraisal of the monetary policy adopted in the previous year followed by the relevance and assessment of current year's monetary policy and financial sector programs. It is the seventh monetary policy in the series of the annual monetary policy announced by the NRB.

Monetary Policy of the Central Bank has a profound influence on the performance of the securities market. The conduct of Monetary Policy comes under Target and Goal Setting of Central Bank that covers various objectives such as price stability, interest rate stability, high employment, financial market stability and stock market is an integral part of it, stability in foreign exchange and ultimately economic stability and growth. At present, monetary policy cannot be separated from stock market although the effects of monetary policy are guided by the broader consideration of macro-economic variables in two ways: I) Relationship between economic development and contribution of stock market to its sound and steady growth and ii) Cyclical pattern generated from the changes in monetary policy and underlying upward and downward paths creating movements in stock prices. Apart from these basic influences, monetary policy plays a decisive controlling function to avoid artificial rigging in stock prices to save investors from the hands of gambling- tendency speculators. The monetary policy structure acts as a powerful tool to foster and encourage the activities of the positive-driven strategy. Monetary policy creates overall linkage to guide the stock market to take right kind of direction and change proving vital to endure fair trading practice and compliance of the guidelines and regulatory provisions to protect the common interest of the investors.

## **2.7 Review of Literature**

### **2.7.1 Review of Related Books**

**In 2003, Mr. Girja Prasad Koirala and Mr. Ishwor Bhattarai** published two books. The first one is for BBS 3<sup>rd</sup> year named "Taxation in Nepal ." the second one is for the MBS 2<sup>nd</sup> year named " Tax Laws and tax Planning ." both books have shown how taxable income have computed unclear employment business and investment sources.

**In 2003, Dr. Puspa Raj kandel** published two books named „Tax laws and Tax planning and second one was „Nepal ko Bartaman Kar Byabastha . This book has been designed to the syllabus of BBS 3 rd year. Theoretical as well as practical aspects of taxation have put in his book.

**In 2004 Mr. Jagadish Agrawal** has published a book entitled, “Income tax, theory and practice,” this book has focused on the students of chartered accounts and taxation. This book has also focused to be a practicenor reference and handbook, rather than the cortical compilation on the subject. His book is not only based on description fact but also has interpreted the various provision of the new act. Some sections of ITA 2058 act have compared with the international act have compared with the international accounting standard.

**In 2007, Mr. Jit Bahadur K.C.** wrote a book entitled “Tax Laws and Tax planning” for MBS second year. He has presented practical as well as theoretical aspects on taxation in this book. This book is useful to any one who is interested in the subject of taxation. This book is also useful to research work.

**In 2008, Dr Kamal Deep Dhakal** had written an article entitled “Historical perspective on income tax in Nepal” this article has describe previous income tax act and shown main fatigue of income tax act 2058 are a follows

1. Provision of set and carry forward of losses
2. Classification and pooling of depreciable Assets
3. Tax on capital gain
4. International taxation

5. Medical tax credit
6. Withholding payment and quantification allocation and characterization of the amounts.

**In 2007, Govind Ram Agrawal**, in this book entitled " Income tax, theory and practice" has deal with the variours aspects of income tax, he has mentioned the new act (i.e. 2058) is a result of a great deal of efforts by some prominent figures of Nepal and some friends of Nepal. The income tax act, 2058 has completely replaced the old act pf 2031.

**In 2011, Dr. Kamal Deep Dhkal and Ramakanta** wrote a handbook with practical exercise book entitled, Tax Laws and Tax Planning. This hand book is also designed to meet the requirement of MBS second year syllabus. Theoretical as well as practical aspects of taxation have been included in the book.

**In 2011, Amatya, Sapkota and Thapa** wrote a book ‘Taxation in Nepal: Income Tax, Property Tax and Value Added Tax’. The authors presented a good mix of conceptual base and practical problems and solutions with special reference to the latest provisions of income tax, property tax and value added tax in Nepal in different chapters of this book. The book is designed according to the requirement of BBS 3<sup>rd</sup> year level as per the syllabus prescribed by the Faculty of Management, T.U. This book gives an in-depth approach to the study of income tax, property tax and value added tax in Nepal in order to meet the specific requirements of the students of this level. This book is useful and helpful to the students of Bachelor of Law (LLB), Master of Law (LLM), Master of Business Studies (MBS) and Master of Public Administration MPA) of TU as well as CA (Intermediate Level & Final) under ICAN and Bachelor of Business Administration (BBA), Master of Business Administration (MBA) of Kathmandu, Pokhara and Purbanchal Universities. This book is also helpful to the Academicians, Tax Administrators, Taxpayers, Auditing Professionals and Tax Consultants.

### **2.7.2 Review of Reports and Articles**

**In 2008, Dhakal** had written an article entitled “*Historical Perspective on Income Tax*



*in Nepal*” this article has described previous income tax act and shown main fatigue of income tax act 2058 are as follows:

1. Provision of set and carry forward of losses.
2. Classification and pooling of depreciable Assets.
3. Tax on capital gain
4. International taxation
5. Medical tax credit
6. With holding payment and quantification allocation and characterization of the amounts

**In 2004, Pant** had written an article entitled “*Problems in Tax Administration and Their Remedies*” and it is published in journal of finance and development 'Rajaswa' as Volume 1. He has explained about the problems and their remedies related with tax revenue and major types of practical problems & challenges in tax administration. He has mentioned in his article by showing limited amount of transaction, commercial trend, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of co-ordination between Inland Revenue Department and Revenue implementation and lack of co-ordination between Inland Revenue Department and Revenue Investigation Unit.

Meanwhile, he has been recommended some valuable suggestions to solve the problem and to maintain overcome challenges. And such recommendations are statistical and information system should be properly managed, co-ordination between Inland Revenue Department with various entities of Government Revenue Investigation Department should be good understandable as well as its related unit should play an important role for the good result in the future.

**In 2001, Kandel** had written an article entitled “*Draft of Income Tax Act, 2002: Critical Analysis*” in Rajaswa. He has criticized the Income Tax Act, 2002 in different aspects, exemption of agriculture income from income tax, expert duties levied income (i.e. tax on interest, dividend and capital gain), withdrawal of the provisions of exemption on exports goods and services, inequity between different capital gain suddenly and no tax adjustment for inflation are the major issues he raised in his article

**In 2004, Thapa** An article entitled “*Tax System and its Performs in Nepal*” as a descriptive way. He has described the features, causes, system and areas of reform of tax. He has characterized the tax system as high rates, multiple objectives of tax scheduler rather global approach to income taxation, complicated and ambiguous tax laws

**In 2006 Mr. Surendra Keshar Amatya** wrote an article entitled “Taxation of employment income in Nepal, concept, computation and contribution” in PRAVAHA, A Journal of Management Vol.16, July 2006. He has mentioned about Nepalese income Tax law, income year and assessment year, sources of income, concept and sources of income, concept of employment, computation of income from employment non chargeable incomes under employment common reductions income tax exemption assessment of income tax liability on employment income, surcharge and contribution of employment income to Tax revenue of Nepal. He has also shown about estimation and collection of employment income tax during the past decade. In this study, he has clearly pointed that actual collection of employment tax is satisfactory

### **2.7.3 Brief Review of Previous Research Work**

**Rabindra Chalise (2007)** conducted a research entitled *A Study On Contribution Of Income Tax To Government Revenue*” **Mr. Chalise** had concerned his study to analyze the effect/impact of income tax evasion on government revenue of Nepal. It was submitted to *Shankar Dev Campus, TU* and Kathmandu at December 2007.

#### **The specific objectives of the study were:**

1. To study the historical development of income tax in Nepal.
2. To analyze/view the structure of government revenue and position of income tax.
3. To identify the ways and causes of income tax evasion in Nepal.
4. To make suggestion and recommendation for the elimination of income tax evasion.

**His major findings are as follows:-**

1. Nepal has been suffering from capital shortage to accelerate the economic growth. A lot of funds are needed to meet additional financial requirement for the development activities of country.
2. Nepal has been heavily relying on foreign loans and grants. Internal resource are preferable for sustainable economic development, thus fiscal deficit of Nepal has been increasing.
3. Income tax is one of the A Study on Contribution of Income Tax to Government Revenue most important resource of public revenue and it is considered as a good remedy to cure growing resource gap problem of Nepal.

**His main recommendations were:**

1. Government should try to reduce resource gap by increasing internal revenue and subsidies likewise government should only take the Foreign loan for production sector or purposes which has high revenue generating possibility.
2. The income tax policy should be made such that the main goal of imposts income tax can be achieved.
3. Timely revision should be made in the matter of income tax policy according the economic policy of the country. The system of changing income tax policy with the change of government should better be avoided.
4. The terms and procedure under the Income Tax Act should be simplified so even laymen could understand it easily.

**D.R. Neupane (2008)** has conducted a research, on the topic “*A Comparative Study on Contribution of Direct Tax and Indirect Tax to National Revenue of Nepal*”.

**His Main Objectives:**

1. To find the contribution of direct tax and indirect tax to national revenue in Nepal.
2. To analyze the structure of direct and indirect tax.
3. To analyze the contribution of corporate tax to national revenue of Nepal.

4. To find out the most important factors for effectiveness of income tax in Nepal.
5. Provide suggestions for effective collection of direct and indirect tax in Nepal.

**His Major Findings:**

1. The resource gap has been fluctuated. It was Rs. 22328 million in F/Y 1998/99 and which was increased to Rs. 30941.2 million in F/Y 2000/01 and average % of resource gap to Government expenditure was 34.79%.
2. The corporate tax rates have been revised for several times in the history of corporate. Now a days, private and public companies are taxed at a flat rate of 20.25 and 30 percent respectively which are the lowest rate in the history of more than one decade.
3. Tax education is most necessary in Nepal to increase the tax consciousness of tax payers. Income tax evasion is the major problem of Nepal for income tax generation and it's main reason is defective tax administration, unwilling of tax payers to pay tax and corruption in tax authority.
4. Lack of trend and competent tax personal, complicated tax laws and undue delay in making assessment are the most important cause of ineffectiveness of Nepalese tax administration.
5. Honest tax officer and clear act, rules and regulations are the most important tractors for the effectiveness of income tax in Nepal.

**His Major Recommendations:**

1. The target of government to increase tax collection from VAT, income tax and excise duty; the government should encourage the entrepreneurs to join in VAT, taking PAN and should systematic the custom and boarder etc.
2. Government should make a clear cut distinction between the role of public and private sector. It should take and endeavor to motive, facilitate and regulate to accelerate the private sectors.
3. Government should reduce resource gap by increasing internal revenue and subsidies likewise, government should only take the foreign loan for productive

sector or purpose which has high revenue generating possibility.

4. Income tax policy should be formulated according to the economy policy of the country. Income tax policy should be revisiting timely.
5. Separate income tax department should be established so that the specialization could be achieved in matter of income tax.

**U.K. Subedi (2009)**, has conducted a thesis on the topic “*Tax Payer’s Attitude Towards Exemptions and Deductions Under Income Tax Act 2058*”.

**His Main Objectives:**

1. To analyze of the contribution of income tax of national revenue of Nepal,
2. To examine of deductions facilities provided by the Income Tax Act 2058,
3. To evaluate of the exempt limit under the Income Tax Act 2058,
4. To examine the views of the tax experts, tax officers and tax payers about the exemptions and deduction facilities provided in the present Income Tax Act.
5. To provide suggestions and recommendations about Income Tax Administration and Income Tax Law.

**His Major Findings:**

1. Income tax administration in Nepal is ineffectiveness.
2. Weakness in government's policy, less public participation, defective Income Tax Act, lack of trained employee, faulty organization structure of tax administration, shortage of income tax experts/professional in tax administration are the main causes for the creation of ineffective tax administration.
3. Provisions made under the Nepalese Income Tax Act 2058 are insufficient in all respect.
4. Income tax is the important source of internal revenue of Government.
5. The tax-GDP ratio of Nepal is not found satisfactory compare to other countries. Tax-GDP ratio was 10.14 percent in 2003/04, which was in an increasing trend and non-tax revenue was 2.98 percent in 2003/04.

**His Major Recommendations:**

1. Dividend received from private residential company is final withholding payment

and it can be included in income form investment, after deducting all the expenses regarding with the dividend.

2. Clear provisions should be made in the case of deduction in that act. All the items of deductions should be clearly defined in the act.
3. To promote export, more deduction should be provided.
4. The provision of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.
5. Special provisions should be made in the act for research and development.
6. The provision of rewards, prize, and incentive should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.

## **2.8 Research Gap**

There is gap between this research and the previous research most of the previous researches have focused the contribution of various income in the government revenue, structure of the government revenue and the income tax from various sources, tax structure etc. they have found that the contribution of income tax in government revenue is significant and it should be mobilized to economic development of Nepal. Almost all of them have indicated that the tax. Almost all of them have indicated that the tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested, improvement of the tax administration could increase in the contribution of income tax in resource mobilization and winding the tax coverage.

This study is based on, provision of capital gain tax and its impact on Nepalese stock market, It is completely quite differ than other research; we can get information and knowledge about the contribution of capital gain tax on national revenue, providing some information about stock market of Nepal, influences of monetary policy and its efficiency, and current provisions of capital gains tax & analysis of major provision that are not been introduce in the Nepalese tax provision. Analyzing trading behavior of Nepalese stock from various fiscal years and to identify the important and positive supportive role of government for the development and promoting of stock market. These are some major objectives research of this study.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

This chapter is mainly concern with detailed discussion of the methods used for information collection and data collection. There are six parts as research design, population and sampling, sources of data, procedure of data collection.

1. Research design,
2. Population and sampling,
3. Nature and sources of data collection,
4. Procedure of data collection and
5. Data Processing and Analysis Procedures

#### **3.1 Research Design**

Generally, research design means definite procedure and technique, which guide to study and propounds ways for research viability. Thus, the research study is focused on analyzing the provisions of capital gain tax and finding out its effectiveness onto the Nepalese stock market as well as its implication in the Nepalese economy. Most of the materials and information of this study are concerned with present tax act and available primary and secondary sources. And under this study different research design are selected to analyze and to find out the solutions such as descriptive research, analytical research and empirical research. Beside this some of the data and information are concerned with the past phenomena.

#### **3.2 Population and Sampling**

In order to benefit this study, 80 sample sizes from Katmandu valley is selected. Persons included in the sample are carefully selected by consultation with the tax experts, professors and lecturers of Tribhuvan University and judgment of the researcher. The respondents have been divided in to five

**Table: 3.1**  
**Groups of Respondents and Size of Sample for Each Group**

S.N.	Groups of Respondents	Sample Size
1	Income tax administrators	20
2	Brokers	15
3	Individuals Investors	25
4	Entity Investors	10
5	Tax Experts	10
	<b>Total</b>	<b>80</b>

### **3.3 Nature and Sources of Data Collection**

In order to achieve the real and accurate result in this research, both primary as well as secondary data have been collected but most of the data and information used in this study are based on secondary sources.

#### **3.3.1 Primary Sources of Data**

The primary data have been collected from the responses of persons relating to income tax representing from the various sector of Katmandu valley. For this purpose, structured questionnaire are distributed to the selected respondents along with the field visit. The questionnaire has included the question relating to specific objectives of capital gain tax in Nepal, major problems of capital gain tax system, remedy to minimize tax evasion existed in Nepalese income tax administration, cases of ineffectiveness of the income tax administration, the most important factor for effectiveness of income tax system including necessary suggestions for achieving effectiveness of income tax in Nepal.

#### **3.3.2 Secondary Sources of Data**

The secondary sources of data are the information received from books, journals, newspaper, reports and dissertations etc.



The major sources of secondary data are as follows:

1. Economic survey and budget speeches of ministry of finance of N/G
2. Reports and records of Inland Revenue Department, Ministry of Finance of N/G.
3. Published documents of National Planning Commission and Nepal Rastra Bank; monetary policy and other documents that are related while preparing thesis.
4. Reports of Auditor Generals' office, Ktm.
5. Rajaswa, Revenue Administration Training Centre, Ktm.
6. Thesis related with income tax, capital gain tax, etc.
7. National Newspapers, Journals, News Magazines and Economic Newspapers and Magazines are also the secondary sources of this thesis.
8. Different publication of Central Bureau of Statistics.
9. Other published and unpublished reports, journals and articles on the concerned subject etc.
10. Annual reports from Nepal Stock Exchange (NEPSE).

### **3.4 Procedure of Data Collection**

Data and information are used in this study has collected from the primary and secondary sources. In primary sources, a total 80 sets of questionnaire are developed and distributed to the selected respondents. Distribution is done personally through field visits rather than sending by any means to get accurate and actual information in time. The questionnaires are administered in personal meeting with the respondents and additional information is also collected from interview with the respondents.

For the other needed information are collected through library of chamber of commerce, annual report of IRD, Economy Survey 2010/11 of MoF, various journals, national newspaper are also reviewed. Respected parties are consulted while analyzing the research questions.

### **3.5 Data Processing and Analysis Procedures**

The useful data and information are collected from various reliable sources. These data and information are firstly processed for tabulation and analysis purpose. Available data are tabulated into separate tables and format as per requirements of the subject matter.

Tabulated data are analyzed by using simple statistical tool such as average, percentage etc. And they have been presented and analyzed in descriptive way. Graphs, Charts and Diagrams are also presented to interpret visually the findings of the study. Analysis of time series has been done to predict the future trend of capital gain tax and its components.

Time series is defined as the functional relationship

$$Y = F(t),$$

Where,

Y is the value of the variable consideration in time. The time t' may be yearly in this analysis. Among the various methods of analysis time series, the least square method is chosen as the best method in showing trend and prediction in this research.

Under the least square method, a trend line is fitted to data satisfying

$(Y - Y_c) = 0$  and  $(Y - Y_c)^2$  is least where, Y is the actual value and  $Y_c$  the computed value of Y.

From that, the line obtained by this method is the line of best fit.

Trend line,  $Y = a + bx$

$$a = \frac{\sum x^2 \cdot \sum y - \sum x \cdot \sum xy}{N \sum x^2 - (\sum x)^2}$$

$$b = \frac{N \sum xy - \sum x \cdot \sum y}{N \sum x^2 - (\sum x)^2}$$

Where,

Y= Dependent variable

X= Independent variable

a= Y intercept or value of Y when X=0

b= Slope of the trend line of amount change that comes in Y for a unit change in X.

## CHAPTER – IV

### PRESENTATION AND ANALYSIS OF DATA

#### 4.1 Background

The presentation and analysis of the data is also one of major chapter of the study, which helps to present the data and analysis the data under the related circumstances. As well it makes easy to study for the analyzer as well as to the students. Revenue Structure of the Nepal, Structure of Tax Revenue, Capital gain tax and its significant, trading behavior of Nepalese stock Market, and at end of his study has Empirical study/Investigation based on opinion survey has been presented with relevant subtopics and major findings are also included in the last of this chapter.

#### 4.2 Tax Structure of Nepal

Every government is responsible to perform numerous as well as welfares activities for the betterment of the people and for the purpose of developing country. So, for that reasons government needs huge amount of fund to fulfill various types of expenditure. For this purpose taxes play vital role to the economic development of Nepal. Generally, the government collecting revenue is classified into two categories:

)Tax Revenue and

)Non – Tax Revenue

##### 4.2.1 Structure of Total Revenue

Total revenue in Nepal is collected of both tax revenue and non- tax revenue. These both sources are subject to non- repayment and their sum constitute the government or public revenue. And beside these sources, government has other sources which are subject to repayment such as loans and however grants are not compulsory repaid these sources are desirable only to meet these fiscal defects.

Nepalese economy is characterized by a low revenue performance in contrast to the growing public expenditure. The trends and composition of tax revenue and non-tax revenue of Nepalese government is presented in a table 4.1, from the fiscal year 2001/02 to the fiscal year 2010/11 at a table given below. The table shows that the share of tax revenue has always been greater than the share of non-tax revenue. In F.Y. 2010/11, the share of tax revenue and non-tax revenue is 86.47% and 13.53% respectively as compared with 77.97% and 22.03% in F.Y. 2001/02. This indicates that the tax revenue has been placed as major source of government revenue in Nepal. The table is shown as follows:-

**Table 4.1**  
**Collection of Tax and Non-Tax revenue in Total Revenue of Nepal from**  
**F.Y.2001/02 TO 2010/11**

(Rs. In million and percentage)

Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
		Amount	% compare with the Total Revenue	Amount	% compare with the Total Revenue
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	54538.9	40896.0	74.99	13642.9	25.01
2003/04	62331.0	48173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.2	71126.7	81.09	16585.5	18.91
2007/08	107622.5	85155.5	79.12	22467.0	20.88
2008/09	143474.5	11705.2	81.58	2642.26	18.42
2009/10	179945.8	156294.9	86.86	23650.9	13.14
2010/11	199818.7	172777.6	86.47	27041.1	13.53
<b>Average</b>	<b>102829.49</b>	<b>84234.13</b>	<b>80.20</b>	<b>18595.31</b>	<b>19.80</b>

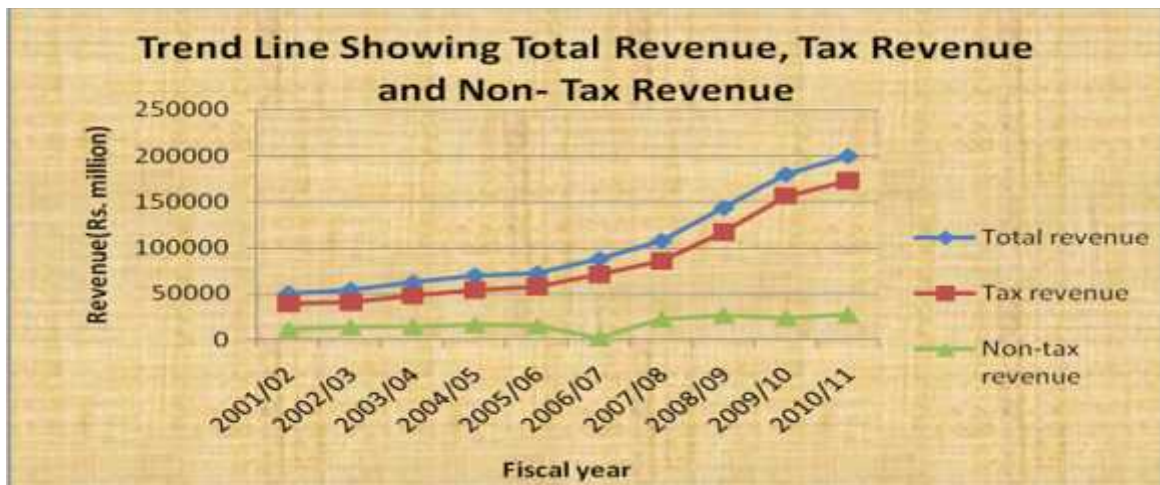
*Sources: Economic Survey from 2001/02 to 2010/11*

The composition of tax revenue and non-tax revenue in total revenue structure has been shown in above table 4.1. It can be seen that revenue collection trend in increasing trend.

Since the fiscal year 2001/02 to the fiscal year 2010/11 the revenue has increased from Rs. 50445.6 million to Rs.199818.7 million. Similarly tax revenue as well as non tax revenue is also increasing trend. Total tax revenue has increased from Rs. 39330.6 million to Rs.172777.6 million in fiscal year 2001/02 to 2010/11. It is the main source of revenue collection. Its contribution is always higher than non-tax revenue. Similarly non tax revenue has also increased from Rs. 11115.0 million to Rs.27041.1 million in fiscal year 2001/02 to 2010/11. But the non tax revenue collection in 2005/06 is decreased to Rs. 14851.7 million, after that it is in the increasing trend. The tax revenue collection is seen to be in gradually increasing trend. The contribution portion of non tax revenue to total revenue is fluctuating during the study period. The collection of non- tax to total revenue is maximum 25.01% in F.Y. 2002/03.

The contribution of tax and non- tax revenue on total tax revenue is shown in the following trend line:-

**Figure 4.1**



*Source: Table 4.1*

Above Figure shows three trends lines which are total revenue, tax revenue and non- tax revenue. It is clear that upper line is total revenue which is ascending upward. Middle is tax revenue it is higher than non tax revenue which is represented by lower line. So, total revenue is combination of tax and non- tax revenue.

#### 4.2.2 Collection of Direct and Indirect tax on Total Tax revenue in Nepal

Tax revenue is the main source of government revenue. Total tax revenue is divided broadly into Direct tax revenue and Indirect tax revenue. Direct tax revenue includes income tax, property tax, interest tax, gift tax, vehicle tax, expenditure tax, contract tax etc. whereas, Indirect tax revenue is composed of taxes like sales tax, VAT, entertainment tax, passenger tax, hotel tax, import tax, export tax, excise duty etc.

The structure of Nepalese tax revenue is presented in given below table, in term of direct tax revenue and indirect tax revenue from the F.Y. 2001/02 to 2010/11. From the table below, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue.

**Table 4.2**  
**Collection of Direct and Indirect Tax on Total Tax Revenue**

(Rs. In million and percentage)

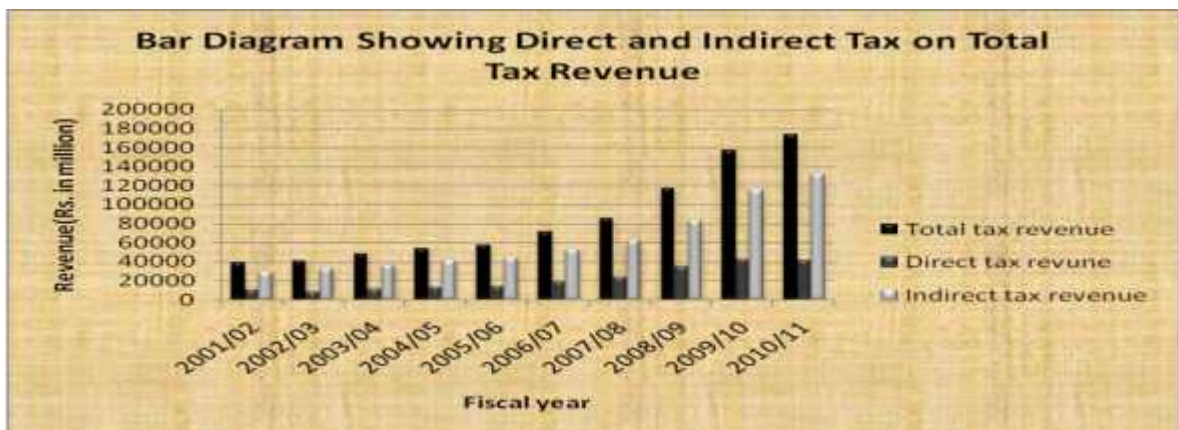
Fiscal Year	Total Revenue	Direct Tax		Indirect Tax	
		Amount	% compare with the Total tax Revenue	Amount	% compare with the Total tax Revenue
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	40896.0	10881.9	26.61	30014.1	73.39
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
2007/08	85155.5	23087.7	27.11	62067.8	72.89
2008/09	117051.9	34320.7	29.32	82731.2	70.68
2009/10	156294.9	41746.4	26.71	114548.5	73.29
2010/11	172777.6	48655.1	28.16	124122.5	71.84
<b>Average</b>	<b>84234.1</b>	<b>22722.6</b>	<b>26.48</b>	<b>57971.6</b>	<b>73.53</b>

*Source: Economic Survey 2001/02 to 2010/11, yearly Report of IRD 2010/11.*

From the above table, it clarify that the completely Nepalese tax is dominated by indirect tax revenue during this study period, tax share of direct tax in total tax is increasing simultaneously before F.Y. 2002/03, but F.Y. 2002/03, direct tax has decreased by 11.92% the previous fiscal year because of instability of government and political conflict in the country. F.Y. year 2005/06 to 2010/11, revenue from direct tax is at increasing rate. The maximum share of direct tax into the total revenue during the fiscal year 2008/09 remained at 29.32% (i.e. Rs.34320.7million). Similarly, share of indirect tax revenue is found fluctuating in different year. The composition of indirect tax revenue to total tax revenue is maximum 79.42% on F.Y. 2002/03. From F.Y. 2005/06 to 2009/10, indirect tax revenue percentages are seems to be same. After 2005/06, it is in the decreasing trend and in the F.Y. 2008/09; it came up to 70.68%, which is minimum till our study period. The composition of direct tax revenue is maximum Rs.41746.4 in F.Y. 2009/10 and minimum is 20.58% in F.Y. 2002/03. The average contribution of indirect tax and direct tax is 74.54% and 25.5% respectively, during the study period. Therefore, on the basis of available data for the study, contribution of direct tax is on increasing trend till F.Y. 2008/09 then decreasing and contribution of indirect tax is on decreasing trend from the F.Y. 2003/04 to 2010/11. These seem that government is trying to create good status of country among other country.

The contribution of direct and indirect tax revenue on the total tax revenue is shown in the following bar diagram:-

**Figure 4.2**



Source: Table 4.2

From the above figure, it is clarify that the completely Nepalese tax structure is dominated by indirect tax revenue on comparison with direct tax. Indirect taxation with a dominant role in tax structure, it is not good symptom of economic development because in the developed country direct tax would be highest portion than indirect tax. It is not happening for few years but every year, indirect tax is always one step front than direct tax. In the fiscal year 2010/11 the share of direct tax is Rs.41466.6 million and of indirect tax is Rs 131311.0 million, which is 24% and 76% respectively, shared of the total tax revenue.

### 4.2.3 Structure of Direct Tax Revenue in Nepal

Income tax, House & Land registration tax and Vehicle tax are the major sources of Direct Tax in the context of Nepal. Table no. 4.1.3 shows the share of major components of direct tax:

**Table 4.3**  
**Major Source of Direct Tax and Their Relative Percentage to Direct Tax**  
**from FY 2001/02 to 2010/11.**

*(Rs. in million and Percentage)*

Fiscal Year	Direct tax revenue		Income Tax		Land Revenue and Registration		Vehicle tax	
	Rs	Total %	Rs	% of DTR	Rs	% of DTR	Rs	% of DTR
2001/02	10597.5	100	8903.7	84.02	1131.8*	10.68	562.0**	5.30
2002/03	10881.9	100	9841.6	90.44	607.8	5.59	432.5	3.97
2003/04	11912.8	100	9514.7	79.87	1697.5	14.25	700.6	5.88
2004/05	13071.8	100	10466.1	80.07	1799.2	13.76	806.5	6.17
2005/06	13968.1	100	10939.4	78.32	2181.1	15.61	847.6	6.07
2006/07	18980.3	100	15731.8	82.88	2253.5	11.87	995.0	5.25
2007/08	23087.7	100	19077.8	82.63	2940.7	12.74	1069.2	4.63
2008/09	34320.7	100	27247.4	79.39	5223.4	15.22	1850.0	5.39
2009/10	41750.0	100	33821.0	81.01	5511.1	13.20	2417.9	5.79
2010/11	48655.1	100	42060.0	86.45	3572.5	7.34	3022.6	6.21
<b>Average</b>	<b>22722.6</b>	<b>100</b>	<b>18760.4</b>	<b>82.5</b>	<b>2691.9</b>	<b>11.01</b>	<b>1270.4</b>	<b>5.56</b>

*Source: Economic survey 2001/02 to 2010/11, yearly report of IRD 2010/11.*



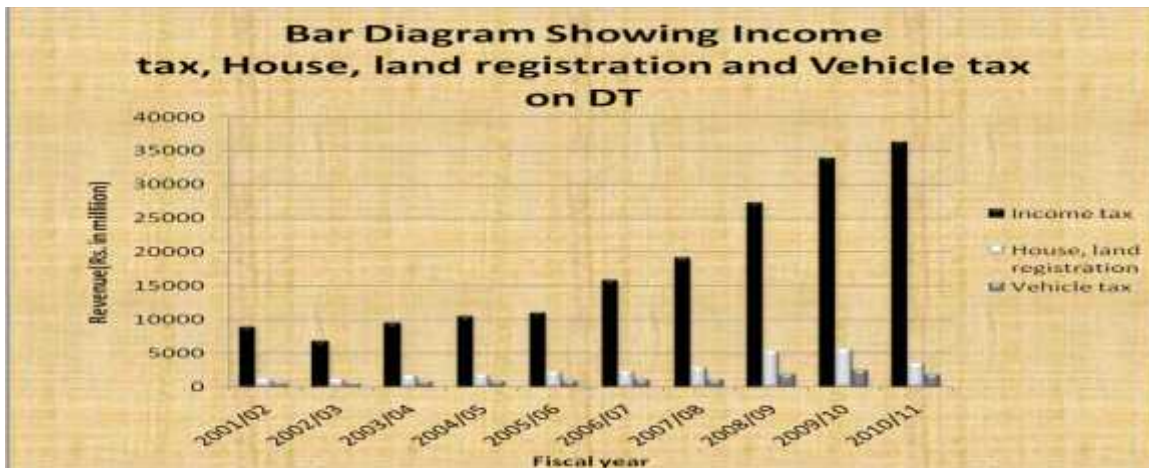
- \* Land revenue has been included
- \*\* Urban house and land tax have been included

Now, these are not government revenue.

Above table shows that the income tax occupied the largest share in the direct tax revenue. The percent share of income tax to direct tax in F.Y.2001/02 is 84.02% amounting Rs. 8903.7 million. After F.Y. 2001/02 the share of income tax percentage are decreasing trend but amount of income tax is increasing trend. In F.Y. 2010/11 Income tax is 86.45% amounting Rs. 42060.0 million which is highest share of in the direct tax revenue during this study period. Again F.Y. 2002/03 Income tax share is only Rs. 6771.4 million, which is the lowest share amount of this study period. The average share of income tax revenue, house and land registration and vehicle tax were 81.6%, 12.00% and 5.40% amounting Rs. 17875.0 million, Rs. 2744.2million and Rs.1137.4 million in this study period. The major portions of direct tax cover by income tax that's why to increase the volume of direct tax we must focus in the income tax. The percentage of vehicle tax to direct tax is found to be very lower in comparison to income tax and House & land registration tax.

We can present this data in the form of Bar Diagram also:-

**Figure 4.3(a)**

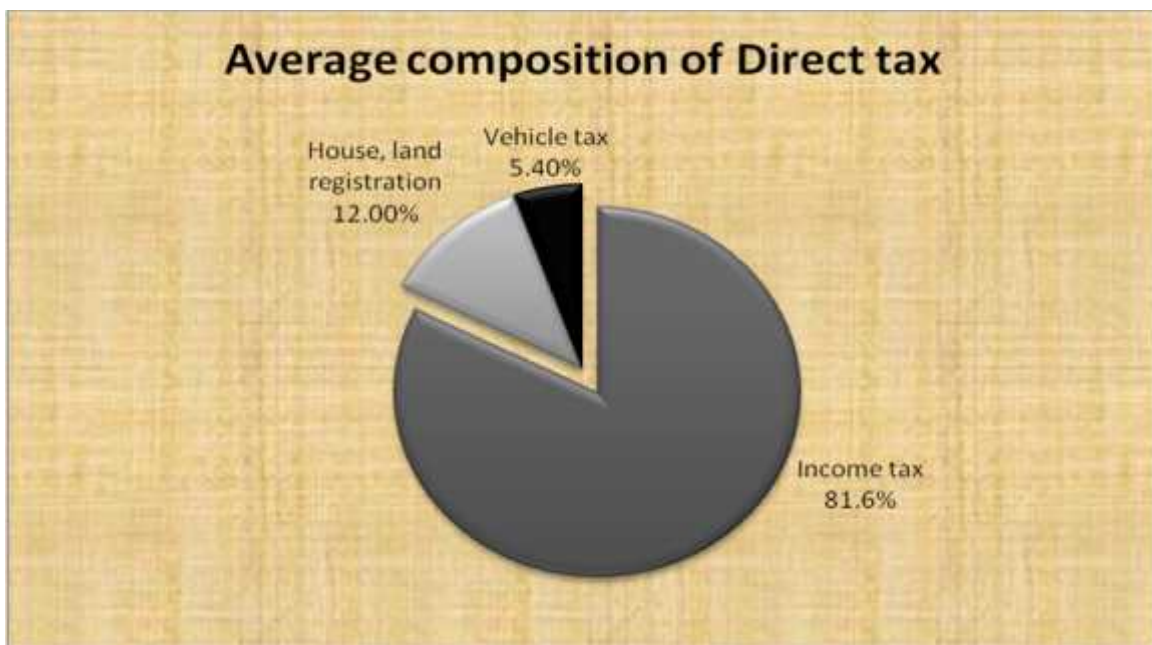


Source: Table 4.3

Above bar diagram shows the composition of direct tax. Above bar diagram shows that in every year income tax revenue is in increasing trend. So, it is the major source of Direct tax. Similarly house, land registration and vehicle tax also seems to increasing trend but this increasing trend is very low than income tax. So, we conclude that income tax play the important role to increase the direct tax.

Average amount of components of direct tax is shown in pie chart:-

**Figure 4.3 (b)**



*Source: Table 4.3*

Above pie- chart shows the average composition of Direct tax. We can see that pie chart, income tax's share is highest 81.6%, House & land registration tax share is 12.00% and Vehicle tax is only 5.40%, which is very low comparison than income tax and house and land registration tax revenue. Above pie chart shows that income tax covered the maximum area, so we can conclude that income tax is the major component of Direct tax.

#### 4.2.4 Rate of TDS Applicable

Gain on disposal of interests in any resident entity (both listed and unlisted) exchange.  
(Taxable amount is gain calculated under section 37)

**Table: 4.4**

**Tax Rate of TDS Applicable of Different Fiscal Year**

Sectors Years	Resident		Non-Resident		Corporate	
	Tax Rate	Remarks	Tax Rate	Remarks	Tax Rate	Remarks
2003/04	10%	Favorable	15%	Favorable	15%	Favorable
2004/05	10%	Favorable	15%	Favorable	15%	Favorable
2005/06	10%	Favorable	15%	Favorable	15%	Favorable
2006/07	10%	Favorable	15%	Favorable	15%	Favorable
2007/08	10%	Favorable	15%	Favorable	15%	Favorable
2008/09	15%	Unfavorable	15%	Favorable	15%	Favorable
2009/10	10%	Favorable	15%	Favorable	25%	Unfavorable
<b>2010/11</b>	<b>10%</b>	<b>Favorable</b>	<b>15%</b>	<b>Favorable</b>	<b>25%</b>	<b>Unfavorable</b>

*Source: Annual Report, Fiscal Year 2010/11*

From above table, Fiscal year's 2003/04 to 2008/09 tax rate is unchangeable at all area but in fiscal year 2008/09, taxes rate has been changed to 15% at resident sector and same rate to other sectors. Fiscal year 2009/10 and 2010/11 taxes rate has been changed to 10% at resident sector, 15% Non- resident sector and 25% corporate sector. The tax rate increased at residential sectors is almost increased by 50% than previous fiscal year 2007/08. Therefore, it seems unfavorable to the residential investors. Fiscal year's 2009/10 taxes rate decreased by 33.33% at residential sector and increased by 66.66% corporate sector than previous year 2008/09. Therefore, it seems favorable to the residential investors and unfavorable to Non- residential and corporate sectors and Fiscal year 2010/11 is same action of 2009/10.

#### 4.2.5 Structure of Capital Gains Tax of Nepal

Capital gain tax revenue which collects from the disposing Non-business chargeable assets; through transactions of securities. Capital gain tax revenue has insignificant role to the revenue collection of Nepal but it has significant and versatile role in the economical growth. It seems that when the stock market would be at ascend then the economical performances will be at ascent trend too. So, stock market and economical activities have inter-relation. Below in the table, revenue collection of capital gain tax is given.

**Table: 4.5**  
**Structure of Capital Gains Tax of Nepal**

(Rs. In thousand)

<b>Fiscal Year</b>	<b>Collected Revenue Amount</b>	<b>% Changed Yearly</b>
2004/05	7030	
2005/06	657	-90.65
2006/07	1127	71.54
2007/08	803492	71194.76
2008/09	761617	-5.21
2009/10	1040000	36.55
<b>2010/11</b>	<b>880000</b>	<b>-15.38</b>

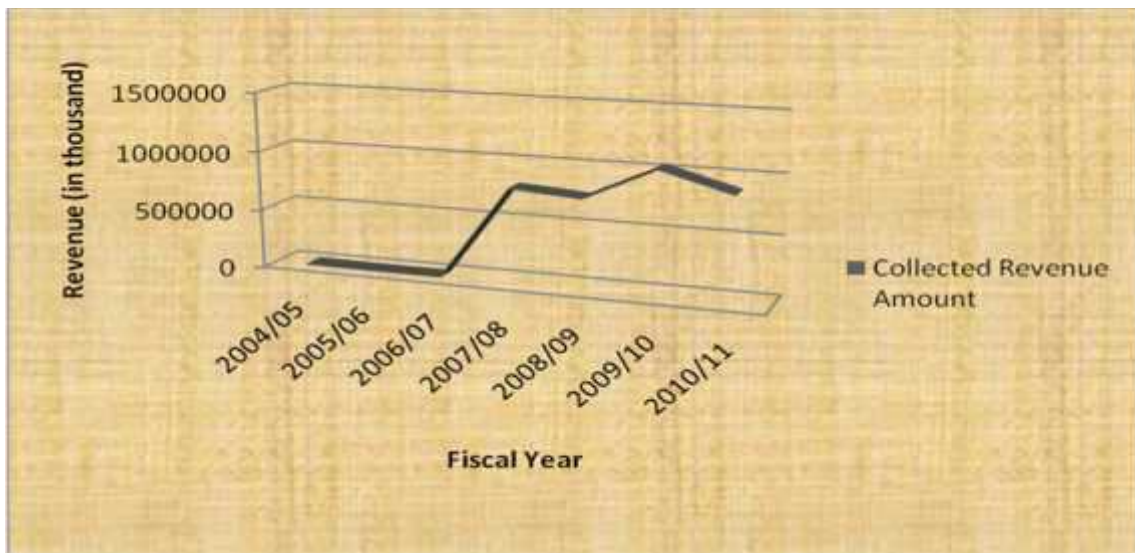
*Source: Annual Report, Fiscal Year 2010/11*

In the up-given table of structure of capital gains tax revenue collection of Nepal, shows that stock market in the past few year is on infancy position. There could be many different reasons but major reason; people are unaware about the securities behavior. Due to of low transaction of securities, revenue in the head of capital gain tax is at minimum level. Since fiscal year 2004/05 to fiscal year 2008/09, has collected revenue Rs 7030 thousand to Rs 761617 thousand respectively. So, we can predict that the capital gains tax is going to contribute extremely good in the future, base on the revenue collection during the five fiscal years. During the FY 2005/06; Rs 657 thousand is low amount of revenue collection as compare with other year's revenue collection. And in FY 2007/08; Rs

803492 thousand of revenue has collected from trading of securities and as well it is the huge amount of revenue collected among than other year's collection. While analyzing after the FY 2004/05, the revenue at decline movement to till 2006/07. But in FY 2007/08, the revenue increases by 71194.76% which is tremendously well moment. But, in FY 2008/09 the revenue decreased to Rs.761617 thousand by 5.21% than previous fiscal year. In FY 2009/10 the revenue increase to Rs. 1040000 thousand by 36.55% than previous year 2008/09 and FY 2010/11 the revenue decreased to Rs. 880000 thousand by 15.38% than previous year 2009/10

We can present this data in the form of following trend line:-

**Figure 4.4**  
**Revenue Collected from Capital Gain Tax**



Source: Table 4.5

Above Figure shows one trend line which are revenue from capital gain tax. It is clear that revenue collection of different fiscal year.

#### 4.2.6 Contribution of Capital Gains Tax Revenue in Total Revenue Collection of Nepal

Capital gain tax revenue is revenue that collected from the disposable of Non-business chargeable assets. According to the figure of capital gain tax revenue, the revenue is at descending order in past years, but after FY 2006/07 to till FY 2007/08 is being fluctuating. In FY 2008/09, slight has been decreased to Rs. 761617 thousand. FY 2009/10 is increased but FY 2010, slight has been decreased to Rs.880000in thousand.

**Table: 4.6**  
**Contribution of Capital Gains Tax Revenue**  
**In Total Revenue Collection of Nepal**

*(Rs. in million and Percentage)*

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>Capital Gain Tax</b>	<b>% Contributed</b>	<b>% Changed Yearly</b>
2004/05	70122.7	7.030	0.010	-
2005/06	72282.1	0.657	0.001	-90
2006/07	87712.2	1.127	0.002	100
2007/08	107622.5	803.492	0.750	37400
2008/09	143474.5	761.617	0.530	-29.33
2009/10	179945.8	1040	0.58	9.43
<b>2010/11</b>	<b>199818.7</b>	<b>880</b>	<b>0.44</b>	<b>-24.14</b>

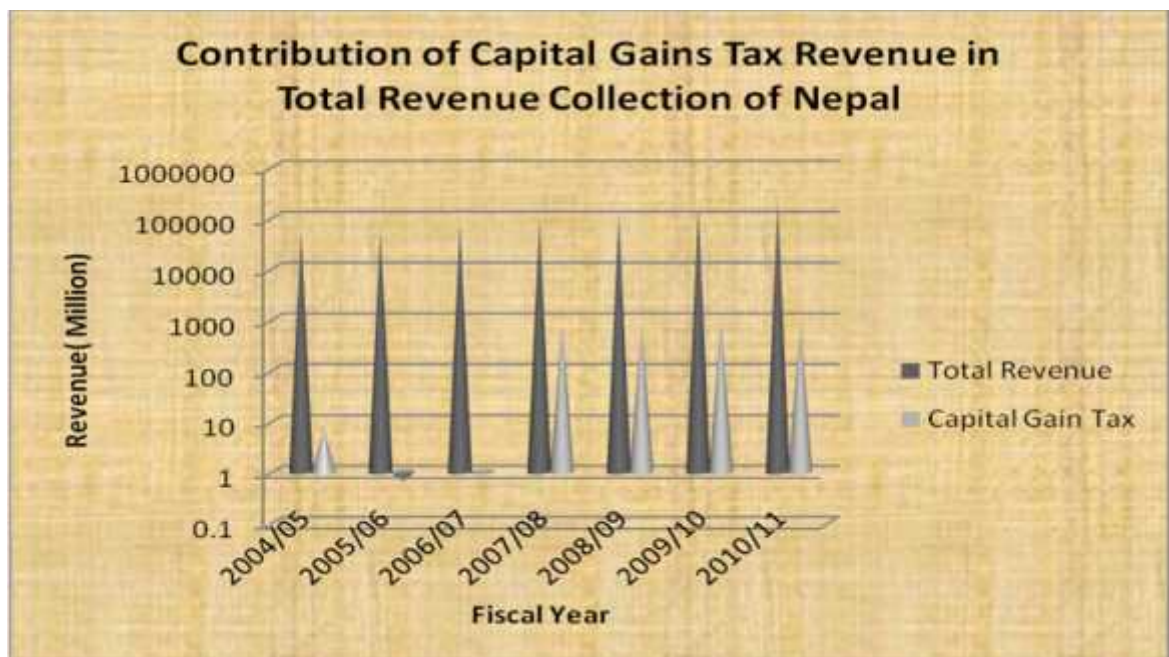
*Source: Annual Report and Economy Survey, Fiscal Year 2010/11*

Above table reflects that, even 1 percent could not contribute on the total revenue collection; since FY 2004/05 to FY 2010/11. Which overcomes an insignificant role of contributing into total revenue collection. In Fiscal Year only 0.01% of ratio has contributed. As well, in FY 2005/06 contribution has decreased to 0.001%, which is 90% decreased as compare with previous year's contribution. In FY 2007/08 capital gain tax revenue has contributed almost 0.75%; tremendously highest contribution than of other year. In fiscal year 2008/9 only 0.53% is the contribution ratio; decreased by

approximately 30% as compare with previous year. In FY 2009/10 capital gain tax revenue has contributed 0.58%, which is 9.43% increased as compare with previous contribution. In FY 2010/11 contribution has decreased to 0.44%, which is 24.14% decreased as compare with previous year's contribution.

The contribution of capital gain tax revenue on the total revenue is shown in the following bar diagram:-

**Figure 4.5**



Source: Table 4.6

Above bar diagram shows the capital gain tax and total revenue. Above bar diagram shows that in every year revenue is in increasing trend. But capital gain tax revenue is fluctuation.

#### **4.2.7 Contribution of Capital Gain Tax Revenue to Total Tax Revenue**

Total tax revenue is a composition of direct tax revenue and indirect tax revenue. Capital gain tax is revenue that comes from dispose of Non-business chargeable assets; comes under the subheading of direct tax revenue. Below the table we have the contribution at

capital gain tax on total tax revenue from the fiscal year 2004/5 to fiscal year 2010/11 is given:

**Table: 4.7**  
**Contribution of Capital Gains Tax Revenue to Total Tax Revenue**

*(Rs. in million and Percentage)*

<b>Fiscal Year</b>	<b>Tax Revenue</b>	<b>Capital Gain Tax</b>	<b>% Contributed</b>	<b>% Changed Yearly</b>
2004/05	54104.7	7.030	0.013	-
2005/06	57430.4	0.657	0.0011	-91.5
2006/07	71126.7	1.127	0.0016	45.45
2007/08	85155.5	803.492	0.944	58896.25
2008/09	11705.2	761.617	0.651	-31
2009/10	156294.9	1040	0.67	2.92
<b>2010/11</b>	<b>172777.6</b>	<b>880</b>	<b>0.51</b>	<b>-23.88</b>

*Source: Annual Report and Economy Survey, Fiscal Year 2010/11*

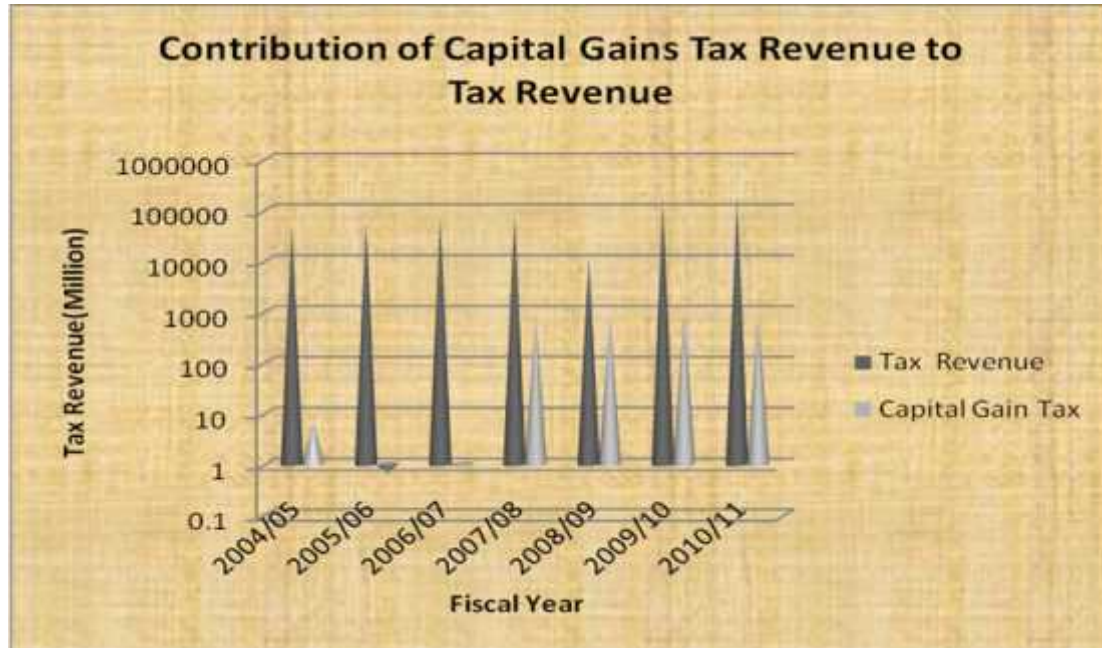
Above given table shows that contribution of capital gain tax on total tax revenue is not very much significant as it must to be because even of 1 percent contribution has not contributed at a period of seven years. Contribution ratio, since FY 2004/05 to FY2010/11 is 0.013% and 0.51% respectively. Thought, during the FY 2007/08 has contributed 0.944%; is highest contribution ratio among the different contributed ratios. In FY 2005/06, 0.001% contributed and it is lowest contribution ratio as compare with other given years ratios. In FY 2008/09 contribution ratio has been decreased to 0.65%, it is declined by 31% as compare with previous year. In FY 2009/10 contribution ratio has been increased to 0.67%, it is increased by 2.92% as compare with previous year. In FY 2010/11 contribution ratio has been decreased to 0.51%, it is declined by 23.88% as compare with previous year.

Therefore, contribution of capital gain tax on total tax revenue have insignificant role in present condition.



The contribution of capital gain tax revenue on the total tax revenue is shown in the following bar diagram:-

**Figure 4.6**



*Source: Table 4.7*

Above bar diagram shows the capital gain tax and total tax revenue. Above bar diagram shows that in every year revenue is in increasing trend. But capital gain tax revenue is fluctuation.

#### **4.2.8 Contribution of Capital Gain Tax Revenue to Direct Tax Revenue**

Direct tax revenue is a composition of income tax, land and registration tax, vehicle tax, Tax on other property. Capital gain tax is also a part of direct tax revenue, which includes under the subheading of income tax; according to ITA 2058 Act.

Below the table it shows the contribution of capital gain tax revenue on direct tax revenue collection; of seven years, since FY 2004/05/FY 2010/11.

**Table: 4.8**  
**Contribution of Capital Gains Tax Revenue to Direct Tax Revenue**

*(Rs. in million and Percentage)*

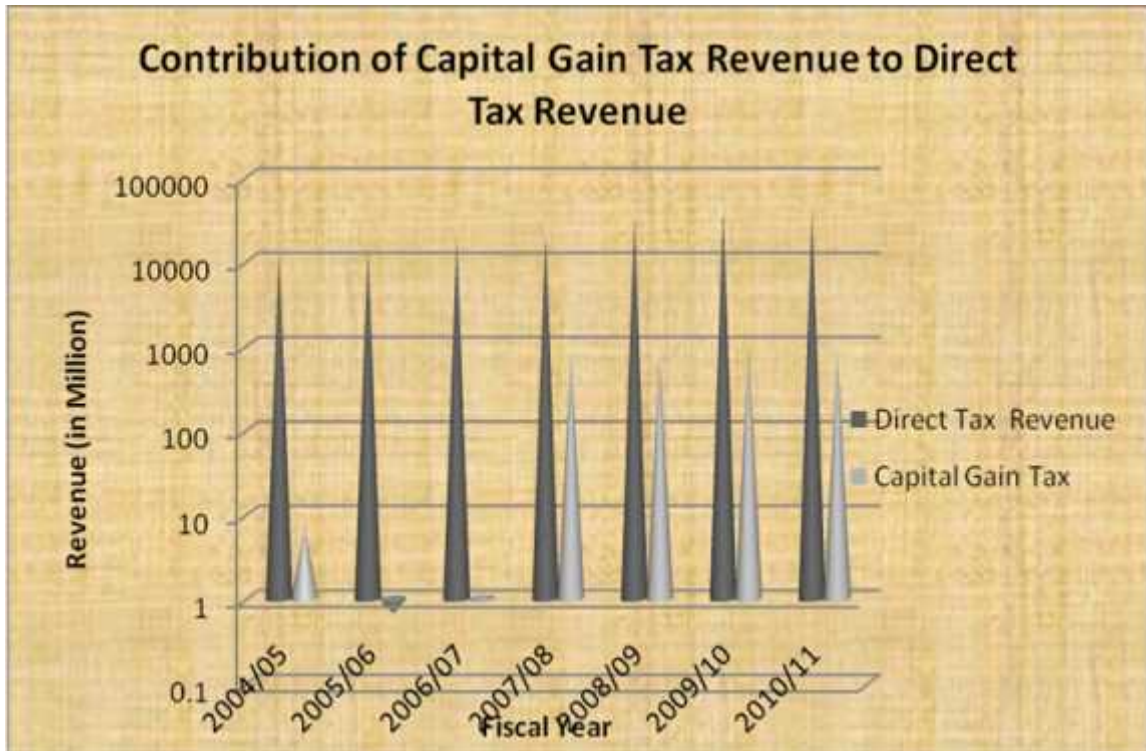
<b>Fiscal Year</b>	<b>Direct Tax Revenue</b>	<b>Capital Gain Tax</b>	<b>% Contributed</b>	<b>% Changed Yearly</b>
2004/05	13071.8	7.030	0.050	-
2005/06	13968.1	0.657	0.005	-90
2006/07	18980.3	1.127	0.006	20
2007/08	23087.7	803.492	3.480	57900
2008/09	34320.7	761.617	2.220	-36.21
2009/10	41750.0	1040	2.49	12.16
<b>2010/11</b>	<b>48655.1</b>	<b>880</b>	<b>1.81</b>	<b>-27.31</b>

*Source: Annual Report and Economy Survey, Fiscal Year 2010/11*

The above table overcomes fluctuating trend of capital gain tax on contributing direct tax revenue since FY 2004/05 to FY 2010/11 the contribution ratio is 0.05% to 2.12% respectively. In FY 2007/08 contribution ratio is 3.48%. It is increased by 57900% as compare with previous year. In FY 2008/09 the contribution ratio is decreased to 2.22%, it is decreased by 36.21% compare with previous year. In FY 2009/10 the contribution ratio is increased to 2.49%. It is increased by 12.16% compare with previous year. But in FY 2010/11 the contribution ratio is decreased to 1.31%. It is decreased by 27.31% compare with previous year.

The contribution of capital gain tax revenue on the total tax revenue is shown in the following bar diagram:-

Figure 4.7



Source: Table 4.8

Above bar diagram shows the capital gain tax and Direct tax revenue. Below bar diagram shows that in every year revenue is in increasing trend. But capital gain tax revenue is fluctuation.

#### 4.2.9 Contribution of Capital Gain Tax Revenue on Income Tax of Nepal

Income tax is a main source of government revenue collection; which contribute in developing the national infrastructures. The compositions of income tax are Corporate Income tax, income from Investment, Individual, etc.

Below, the table represents the contribution of capital gain tax revenue on income tax revenue collection; from the fiscal year 2004/05 to fiscal year 2010/11.

**Table: 4.9**  
**Contribution of Capital Gains Tax Revenue on Income Tax**  
**Revenue Collection from Fiscal Year 2004/5 to 2010/11**

*(Rs. in million and Percentage)*

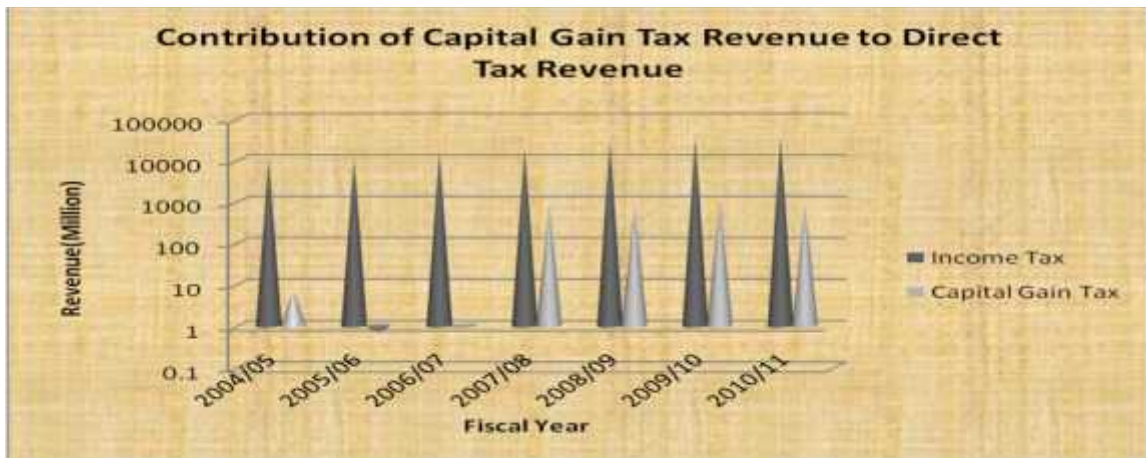
Fiscal Year	Income Tax	Capital Gain Tax	% Contributed	% Changed Yearly
2004/05	10466.1	7.030	0.07	-
2005/06	10939.4	0.657	0.006	-91.43
2006/07	15731.8	1.127	0.007	16.67
2007/08	19077.8	803.492	4.21	60042.85
2008/09	27247.4	761.617	2.80	-33.50
2009/10	33821.0	1040	3.08	10
<b>2010/11</b>	<b>42060.0</b>	<b>880</b>	<b>2.09</b>	<b>-32.14</b>

*Source: Annual Report and Economy Survey, Fiscal Year 2010/11*

In the above given table shows that, in fiscal year 2004/05, contribution of capital gains tax to income tax is 0.07% and then, it reduced to 0.006% but it is decreased by 91.43% as compare with previous year. In FY 2007/08 it increased by tremendous to 4021%. In FY 2008/09 the contribution ratio is decreased to 2.80%, it is decreased by 33.50% compare with previous year. In FY 2009/10 the contribution ratio is increased to 3.08%. It is increased by 10% compare with previous year. But in FY 2010/11 the contribution ratio is decreased to 2.09%. It is decreased by 32.14% compare with previous year.

The contribution of capital gain tax revenue on the Income tax is shown in the following bar diagram:-

**Figure 4.8**



*Source: Table 4.9*

Above bar diagram shows the capital gain tax and Income Tax. Above bar diagram shows that in every year revenue is in increasing trend. But capital gain tax revenue is fluctuation.

#### **4.2.10 Nepalese Stock Market**

Nepalese Stock Exchange Ltd. is a monopoly stock market of the country. Where, capital market is mobilizing through trading many different listed companies's securities at transactional day. So, NEPSE was established to promote specialized secondary market in Nepal. Previously it was known as Securities Exchange Center Ltd. which was established in 1976. Due to emerging trends of globalization aspect, NEPSE started internationally compatible computerized trading system, Automated Trading System (ATM), from 24 August, 2007. Since 2010/11, Nepal Stock Exchange Ltd. has commenced various programs in favor of investors and for the development of capital market. In the previous year, an agreement was made with CDSL of India to establish a Central Depository System (CDS) in Nepal while in the review year it had obtained membership of Association of National Numbering Agency (ANNA), Germany. These efforts can be taken as important steps in this regard. Similarly, the arrangement has been made to expand the broker service outside Kathmandu valley. The transaction service initiated by member share broker in Pokhara from 25 January 2010 in coordination with Nepal Stock Broker Association which has extended to Biratnagar, Birgunj, Narayangadh and Butwal from the previous year.

#### **4.2.11 Trading behavior of Nepal Stock Market in NEPSE**

##### **4.2.11.1 Detail of Sector Wise Listed Companies**

In the fiscal year 2010/11, with the listing of 33 new companies, merged between Himchuli Bikas bank Ltd. and birgunj Finance Company and delisted of Nepal Development bank Ltd. the total number of listed companies reached to be 207 while it was 176 in the fiscal year 2009/10. The detail of listed companies in the fiscal year 2010/11 is presented in table 4.10

**Table 4.10****Detail of Sector Wise Listed Companies**

<b>S.N.</b>	<b>Sector</b>	<b>Number of Listed Companies</b>	<b>percent</b>
1	Commercial Banks	23	11.00
2	Development Banks	61	29.67
3	Finance Companies	70	33.97
4	Insurance Companies	21	10.05
5	Hotels	4	1.91
6	Manufacturing & Processing Companies	18	8.61
7	Trading Companies	4	1.91
8	Other Companies	6	2.87
<b>Total</b>		<b>207</b>	<b>100.0</b>

*Source: Annual Trading Report, Fiscal Year 2010/11*

Company which are enlisted under group wise distribution, is only the significant companies doing the Nepalese stock market continuing the transaction at every trading day, As usual the Commercial Bank has the highest stake of the total trading volume. Similarly, the group of finance company and development bank etc. plays the important role in trading each and every a day.

**4.2.11.2 Trading of Mutual Fund Share**

Trading of units of mutual fund plan is being carried out by NCM Mutual Fund through the secondary market. The only company enlisted at NEPSE for the purpose.

**4.2.11.3 Trading of preference Share**

Only one preference share of Everest bank Ltd. is enlisted with NEPSE which has a convertible feature.

**4.2.11.4 Trading of promoter Share**

Since 31<sup>st</sup> march 2008, NEPSE has started a different mechanism for the trading of promoter's share of the listed banks and financial institution. Since then the trend of trading promoter share is very encouraging as the amount and number of transactions of promoter shares are increasing.

#### **4.2.11.5 Trading of Bond**

Although one more government bond and additional 5 corporate bonds were listed in NEPSE during the fiscal year 2008/09, no bond transaction has been recorded during the period. The trading volume of bond was nil in the previous year, also low number of individual investors and differential income tax on interest for individual and corporate companies are the major reasons for such situation in the transaction of bond.

#### **4.2.12 Classification of Listed Companies**

As per the provision of “Securities Listing Byelaws, 1996”, the listed companies that have earned profit for the last three consecutive years, book value higher than paid up value, submitted their financial statement to NEPSE within six months of the expiry of fiscal year, paid up capital at least Rs.20 million, and has at least 1000 shareholders can be categories in group ‘A’ and remaining of the listed companies can be categorized in group ‘B’. In the fiscal year 2010/11, NEPSE categorized 117 companies into group ‘A’ comprising 22 commercial banks, 28 development banks, 48 finance companies, 14 insurance companies, one hotel company, one manufacturing and processing company and three other companies. The paid up capital list companies increased by 25.6% to Rs 100.23 billion at mid –July 2011, mainly due to a rise in additional shares in Nepal Stock Exchange Ltd... In FY 2010/11, general share amounting to Rs. 8.79 billion of 31 companies, bonus of share amounting to Rs. 3.95 billion of 58 companies, right share amounting to Rs. 8.95 billion of 40 companies have been listed. Out of the increased paid up capital in the review year, the right share, general share and bonus share comprises 41.3 %, 40.5%, 18.2% respectively. In the previous year, the percentage of general share, right share and bonus share recorded at 52.0 %, 28.0% and 20% respectively. Similarly, during the review year, the government bond of Rs. 7.99 billion has been listed in Nepal Stock Exchange Ltd.

#### **4.2.13 Comparative Summary Sheet of Transaction with previous years**

Transactions of securities traded under the Nepalese stock market is presented summary wise; since the fiscal year 2004/05 to fiscal year 2010/11 below the table. Description of every fiscal year's turnover of share in quantity and amount is given below. The listed

companies at NEPSE has been distributed in Nine sectors namely, commercial Bank, Development Bank, Finance Companies, Hydro power Companies, Hotels, Trading Companies, manufacturing and processing Companies, insurance Companies and Other Companies. Until during the FY 2010/11 total 207 numbers of companies are enlisted at NEPSE.

During the review period Rs.6665.33 million volume of securities and 26.24 million units of shares are been traded and it is decreased by 43.76 % as compare with previous year, as usual the volume of trading amount from the commercial banks group has the highest stake on the total trading volume. Excluding the trading of promoter shares, commercial bank group trading volume is Rs.3431.82 million; 51.49% of the total trading of equity shares during the review period. But as compare with the previous year's turnover volume of commercial bank group, it has been decreased by 52.31% ahead; Similarly, Manufacturing & Processing and Insurance Company remain at second and third position. But contribution of Trading and finance group, Hydropower, development Bank and other group are insignificant as these contributed less than one percent in total turnover.

Contrast, transaction of Hotel group has ascent by 1396.85% as compare with previous year's transaction and Hydro power group's transaction is declined by 54.42% as compare with year's transaction.



**Table 4.11**  
**Comparative Summary Sheet of Transaction with Previous Years**  
**From the Year 2004/05 to 2010/11**

S.N.	Particulars	FY 2004/05		2005/06		change	2006/07		Change
		2062/63		2065/66			2066/67		
		Share units	Amount	Share units	Amount	in	Share units	Amount	in
		( '000 )	Rs. in million	( '000 )	Rs. in million	%	( '000 )	Rs. in million	%
I	Turnover	18433.55	4507.68	12221.93	3451.43	-23.43	18147.25	8360.07	142.22
A	Commercial Bank	6416.57	4021.83	5534.72	2696.27	-32.96	9090.95	5855.77	117.18
B	Finance	1443.34	216.37	1957.49	305.84	41.35	2343.46	642.64	110.12
C	Hotel	98.17	4.48	392.65	19.76	341.07	81.70	7.07	-62.22
D	Manufacturing & Processing	7606.89	114.90	59.80	17.19	-85.04	82.92	24.12	40.31
E	Other	2398.42	52.48	0.47	0.02	-99.96	14.24	0.54	2600.00
F	Hydro Power	0.00	0.00	473.61	152.01	0.00	4460.27	1258.01	727.58
G	Trading	10.41	7.99	15.22	15.80	97.75	11.47	10.42	34.05
H	Insurance	328.13	67.62	574.93	129.90	92.10	627.61	204.97	57.79
I	Development Bank	135.62	22.01	386.44	82.76	276.01	1360.53	355.73	329.83
J	Mutual Fund	0.00	0.00	2826.60	31.88	0.00	74.10	0.80	-97.49
K	Preffered Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
L	Promotor Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Continue.....

	Particulars	FY 2007/08		change	FY 2008/09		change	FY 2009/10		Change	FY 2010/11		Change
		2064/65			2065/66			2066/67			2067/68		
		Share units	Amount	in	Share units	Amount	in	Share units	Amount	in	Share units	Amount	in
		('000)	Rs. in million	%	('000)	Rs. in million	%	('000)	Rs. in million	%	('000)	Rs. in million	%
I	<b>Turnover</b>	<b>28599.77</b>	<b>22820.76</b>	172.97	<b>30547.16</b>	<b>21681.14</b>	-4.99	<b>26231.35</b>	<b>11851.11</b>	<b>-45.34</b>	<b>26240.39</b>	<b>6665.33</b>	<b>-43.76</b>
A	Commercial Bank	11241.41	13822.14	136.04	13301.43	12406.45	-10.24	9680.62	7196.24	<b>-42.00</b>	8,534.28	3,431.82	<b>-52.31</b>
B	Finance	3094.26	2307.53	259.07	3552.01	2615.40	13.34	3265.92	1263.94	<b>-51.67</b>	3,591.18	630.69	<b>-50.10</b>
C	Hotel	158.07	27.67	291.37	95.89	18.69	-32.45	50.28	10.15	<b>-45.69</b>	1,584.59	151.93	<b>1396.85</b>
D	Manufacturing & Processing	1655.08	343.44	1323.88	95.12	26.08	-92.41	360.68	37.74	<b>44.71</b>	1,128.51	363.06	<b>862.00</b>
E	Other	7.70	0.29	-46.30	630.82	494.39	170379.31	423.13	217.83	<b>-55.94</b>	285.18	122.67	<b>-43.69</b>
F	Hydro Power	7251.21	3199.94	154.37	3612.12	890.30	-72.18	4776.70	752.45	<b>-15.48</b>	1,210.63	343	<b>-54.42</b>
G	Trading	14.97	33.65	222.94	14.65	33.49	0.48	12.01	35.43	<b>5.79</b>	37.77	27.53	<b>-22.30</b>
H	Insurance	433.26	264.86	29.22	418.49	212.80	-19.66	629.90	183.47	<b>-13.78</b>	1,590.58	377.15	<b>105.56</b>
I	Development Bank	2534.86	1981.05	456.90	3631.81	2740.36	38.33	3535.07	1323.53	<b>-51.70</b>	5,158.66	813.24	<b>-38.56</b>
J	Mutual Fund	319.10	6.09	661.25	758.50	22.40	267.82	187.50	5.21	<b>-76.74</b>	459.05	14.68	<b>181.77</b>
K	Proffered Stock	101.42	81.15	0.00	74.42	74.05	-8.75	29.46	26.39	<b>-64.36</b>	20.48	15.99	<b>-39.41</b>
L	Promotor Share	1788.41	752.95	0.00	4361.90	2146.73	185.11	3171.55	735.00	<b>-65.76</b>	1,639.48	270.57	<b>-63.19</b>

*Source: Annual Trading Report, Nepal Stock Exchange (NEPSE) Fiscal Year 2010*

In above table of securities transaction summary sheet since fiscal year 2004/05 till fiscal year 2010/11 we can have notice that Commercial Bank group has the highest stake on the total trading volume from FY 2004/05 to FY 2010/11 and its trading amount is Rs. 4021.83 million to Rs.3431.82 million respectively. It is at ascending order from FY 2004/05 to FY 2010/11 continuously. As well, percent in change column shows that each and every year trading volume is at incline trend of position. Similarly, in FY 2007/08 the trading volume has increased by 136.04 percent, as being highest stake on the total trading volume but it is decreased to Rs.12406.45 million and it is 10.24 percent decreased as compare with previous year. In fiscal year 2010/11, total trading volume of commercial group has decreased to Rs. 3431.82; it is highest traded volume of amount at review period but, 52.31 percent is less than pervious year. This shows that commercial bank group is an elite group among the other groups. Each and every year it contributed over 67 percent of total trading of equity shares.

Finance group has also an importance to boost-up the total trading volume, since FY 2004/05 to 2010/11. Its trading amount is Rs. 216.37 million in FY 2004/05 and Rs. 630.69 million in FY 2008/09; trading amount is at fluctuating movement. Rs. 2615.40 million traded amounts during the FY 2008/09 is the highest volume traded amount of financial group, than other years. This group has been contributed approximately 9 percent averages per year on the traded volume. Consequently, at column of change in percentage shows that from FY 2004/05 to FY 2010/11, is increasing year by year continuously. In Fiscal Year 2007/08, 259.07 percent is increased at traded volume as compare with previous year.

Hotel group has played insignificant role from the FY 2004/05 to till FY 2010/11. Trading volume of this group from the FY 2004/05 to FY 2010/11 is Rs. 4.48 million to Rs. 151.93 million respectively. In FY 2010/11, Rs.151.93 million is traded and it is highest volume of trading than other years traded volume. Transactions of this group have contributed only 2 percent average yearly. In a column of change in percent, we can have notice that its transactional trend is almost negative. Though, in FY 2010/11, 1396.85 percent is increased than compare with other years increasing rate.

Manufacturing and processing group's total traded volume is Rs.114.90 million in FY 2004/05 and Rs.862.00 million in FY 2010/11. It seems that its contribution is towards the descend trend. In FY 2010/11, Rs.363.06 million is the highest traded volume than other years traded amount volume. This group contributed approximately 2 percent average per year on the total traded volume. Though, in FY 2007/08, 1328 percent is increasing rate on traded volume as well as high increasing rate than other groups, during the fiscal year.

Other group also has insignificant role on the contribution of maximizing total trading volume. Trading volume since FY 2004/05 to FY 2010/11 is Rs.52.45 million to Rs.122.67 million volumes of equity shares are traded. Contribution of this group on annual total traded volume is approximately 1 percent average per year. Though, in FY 2008/09, 170379.31 percent is the highest increasing rate among other year rates.

Hydro power group is another significant group of equity shares trading after commercial bank group. In fiscal year 2005/06, Rs. 152.01 and in fiscal year 2010/11, Rs343 million volume of equity shares are traded. In between them, in FY2007/08, Rs.3199.94 million is highest volume of equity shares are traded and it is 14 percent contribution on the total volume of share traded during the FY. Approximately 7 percent average per year is the contribution on the total trading volume.

Since, trading its volume of trading amount is increasing continuously till FY2007/08. In fiscal year 2008/09 its trading volume is declined by 0.48 percent as compare with previous year. And FY 2010/11 as declined by 22.30 percent, But in FY 2006/07, 727.58 percent is the highest increasing rate of this group than other years increasing rates.

Trading group is also another group of listed companies at NEPSE. In fiscal year2004/05, Rs 7.99 million and in fiscal year 2010/11, Rs. 27.53 million volumes of equity shares are traded. In FY 2009/10, Rs 35.43 million is highest traded volume of this group than other fiscal years' turnover. 0.25 percent average per year is a contribution on the total volume of traded shares. So, 222.94 percent is highest increasing rate than other years' rate.

Insurance group, in FY 2004/05 to FY 2010/11 total volumes of shares are traded Rs. 67.62 million to Rs. 377.15 million respectively. In FY 2010/11, Rs. 377.15 million amounts of shares traded is the highest turnover amount than other years' turnover volume of this group. In FY 2008/09, turnover of this group is decreased to Rs.212.80 million and it is decreased by 19.66 percent as compare with previous year. And FY 2010/11 turnover of this group is decreased to Rs.843.47 million and it is decreased by 13.78% compare previous year. This group contributed 2 percent average per year on the total volume of shares trading every year.

Development banking group; in FY 2004/05, Rs. 21.01 million to FY 2010/11, Rs. 813.24 million volume of equity shares are traded. Where except FY 2004/05 in all years trading amounts are gradually increasing till FY 2008/09. But in FY 2009/10, Rs. 1323.53 and FY 2010/11, Rs.813.24, which is decreased by 51.70% and 38.56% In FY 2008/09, Rs. 6 million volumes of equity shares are traded and it is highest amount traded among other year traded volume. The contribution of this group on total volume of shares traded annually is approximately 10 percent at average per year.

In fiscal year 2004/05, 31.92 percent has decreased than previous year and after a period trading volume is at fluctuating movement. In this group 456.90 percent is the highest increasing rate than other years.

Mutual fund is also contributing to total volume of equity shares trading since the fiscal year 2005/06. In FY 2005/06, Rs. 31.88 million and in FY 2010/11, Rs.14.68 million of funds are traded. Rs.31.88 million is highest amount of funds are traded than compare with other years.

Preferred stock: - Only one preference share of Everest Bank Ltd. is listed with NEPSE which has a convertible feature. From FY 2007/08, its trading activities took place, Rs 81.15 million volumes of shares are traded and in FY 2010/11 it reached to Rs.15.99 million, decreased by 39.41 percent as compare with previous year.

Promoter share: - Since 31 st march 2008, NEPSE has started a different mechanism for the trading of promoters' share of the listed banks and financial institution. Since then the trend of trading promoter shares is very encouraging as the amount and number of transactions at promoter shares are increasing. In FY 2007/08, Rs.752.95 million volumes of shares are traded and in FY 2008/09, Rs2146.73 million volumes of shares are traded. The amount has increased of 185.11 percent as compared to the previous year. In FY 2009/10, Rs. 735 million volumes of shares are traded and in FY 2010/11 Rs.270.57 million volumes of shares are traded, which is decreased by 65.76% and 63.19% as compared to the previous year.

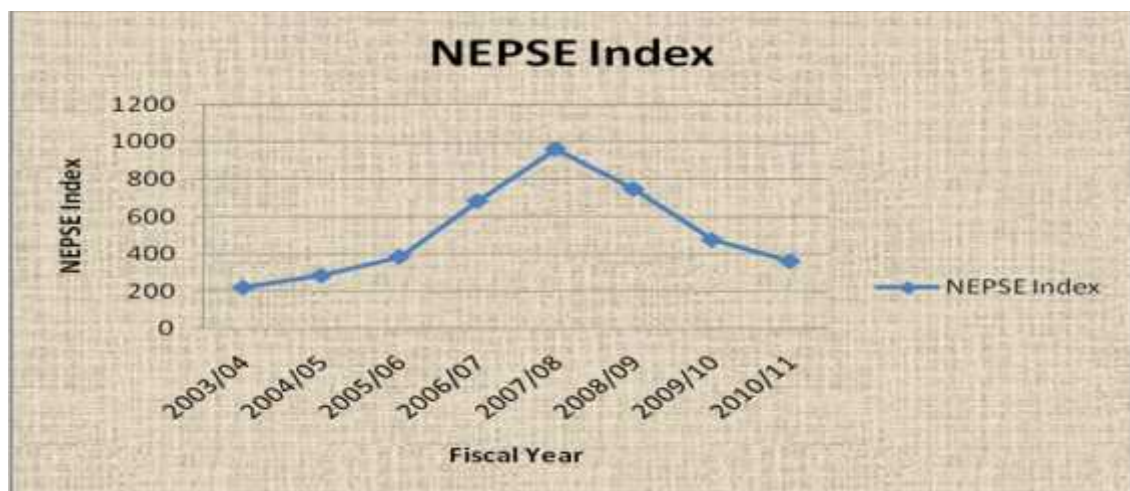
Review: Transaction and Behaviour of Secondary Market for the Fiscal Year 2008/09  
Secondary market is the main component of capital market; it experienced a bearish trend during the fiscal year 2008/09. The continuous increasing trend since last few years but FY 2009/10 and 2010/11 decreased by 26.53% and 14.17% as compare previous year. Almost all indicators in the secondary market have decreased as compare to the previous year. However, capital mobilization through primary market has been increased by 68.82% than as compare to the previous year. Though, Market capitalization of security for the fiscal year 2010/11 is Rs.323484.34 Million, which is decreased by 14.17% than previous fiscal year.

Controversy, decrease of capital gain tax by 33.33% effective from Ashoj 2066 B.S. till the end of the fiscal year and other tax rates as well as income source policies adopted by the government have contributed for such decreasing trend. Furthermore, the signaling effect of global financial crisis is also a cause in decline the secondary market. So, increasing trend of secondary market since last year has stopped this year. Because, during the fiscal year 2010/11, the total trading volume has slightly been decreased by 43.76% amounted to Rs.11851.11million but decreased to Rs.6665.39 million last year. Likewise, the number of shares traded during the review period is Rs.24.26 million, which is 0.034% increased as compare to previous year. The NEPSE index dropped by 24.0 percent to 362.85 at mid-July 2011 from 477.73 at mid-July 2010. The share price and market indicators both declined in the review year due to a significant rise in supply

of share as well as adverse political and economic situation in the country. The NEPSE sensitive index (computed by taking mid-July 2006 as base) has stood at 89.44 at mid-July 2011 compared to 116.14 at mid-July 2010. The NEPSE float Index (computed by 24 August 2008 as base) has declined by 30.80 percent to 30.67 at mid-July 2011 from 44.33 at mid-July 2010.

We can show this NEPSE Index in the form of following trend line:-

**Figure 4.9**



*Source: Annual Trading Report, Fiscal Year 2010/11*

Above trend line shows the NEPSE Index are increasing up to FY 2007/08.and FY 2008/09 to FY 2010/11 NEPSE Index are decreasing.

On the way, NEPSE has collected capital gain tax from share transactions is Rs.761.617 million, which is decreased by 5.21% as compared with previous year's capital gain tax. The last year's capital gain tax collection is Rs. 803.492 million.

#### **4.2.14 Empirical Investigation**

An empirical investigation has been conducted in order to find out various aspects of capital gains tax in Nepal. This chapter analyses information collected from primary sources i.e. through questionnaire. So, questionnaire has been developed and a set of 80 questionnaires are to be distributed to various respondents. Respondents have classified into five groups. They are; Income Tax Administrators, Brokers, Individual Investors, NEPSE Administrators and Tax Expertise. The responses received from various respondents have been arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of respondents in appendix A and B respectively.)

The questionnaire has been asked for either yes or no responses or choice alternatives or ranking of the alternatives. In the alternative, the first choice has the most important and the last choice has the least important. The choices among the ranking have assigned weights according to the number of alternatives. If the number of alternatives has, five the first choice has five points and the last preferred choice has one point. Any alternatives, which has no ranked, got no points. The total points available to each choice have converted into percentages with references to the total points available for the choices. The choice with the highest score has ranked as the most important choice and the one with lowest percentage score has ranked as the last choice.

The following table shows the group of respondents:-



**Table 4.12**  
**Denominations of Respondents Code Used**

S.N.	Groups of Respondents	Sample Size	Code Used
1	Income tax administrators	20	A
2	Brokers	15	B
3	Individuals Investors	25	C
4	Entity Investors	10	D
5	Tax Experts	10	E
	<b>Total</b>	<b>80</b>	

#### **4.2.15 Increasing Capital Gain Tax, Contribute to increase Government Fund**

In Fiscal Year 2008/09 capital Gain tax from stock market has been contributed approximately 0.53% on total tax revenue of Nepal but later on it has increased capital gain tax rate has been decreased by 33.33% than last fiscal year 2008/09.

To know the fact, the question has been asked to respondent “Does increasing capital gain tax, could contribute to increase government fund?” Opinion result is presented in the table as below:

**Table 4.13**  
**Capital Gain Tax and its Effect on Government Fund**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	50	10	50	20	100
B	10	67	5	33	15	100
C	5	20	20	80	25	100
D	3	30	7	70	10	100
E	0	0	10	100	10	100
<b>Total</b>	<b>28</b>	<b>35</b>	<b>52</b>	<b>65</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey, 2012*

From the above table, it is clearly stated that 35% of the respondents argue the increasing capital gain tax could contribute towards government fund and 65% of the respondents argue that only increasing capital gain tax, could not contribute to increase government fund. In which respondents A and B are on the side (50% and 67%) of increment but 50% and 33% are against it. As well as respondents C's 80% are on against the argument, respondents D's 70% are on against the argument and respondents E's 100% are on against the argument.

So, it can be said that respondents who do not involve in investment are at the side of increasing tax but who involve in investment. They are against the increasing tax rate.

In conclusion, it can be said that before increasing the tax rate, policy maker should consult with investor and tax expertise. (i.e. individual investors, entities/ institutional investors, tax expertise)

#### **4.2.16 Effective and Favorable Policy to Benefit Investors**

Entities investors, individual investors, etc are the investors who invest their collected funds into the capital market, for the objectives of having high return. So, such favorable and effective policies are very much important to influence them, as well as for the boost up the capital market.

To know the fact, the question has been asked to respondent "Are there any favorable policy to benefit investors?" Opinion result is presented in the table as below:

**Table 4.14**  
**Effective and Favorable Policy to Benefit Investors**

<b>Responses/Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
A	20	100	0	0	20	100
B	10	67	5	33	15	100
C	5	20	20	80	25	100
D	2	20	8	80	10	100
E	10	100	0	0	10	100
<b>Total</b>	<b>47</b>	<b>58.75</b>	<b>33</b>	<b>41.25</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey, 2012*

From the above table it can be stated that; instead of 100% only 58.75% have been approved but 41.25% have been ignored that there is effective and favorable policy to benefit investors. Shortly, it can be concluded that, there are no any adequate effective and favorable policy that could attract the investors to invest their capital into the capital market safely and frequently.

#### **4.2.17 People Involvement in Stock Market is increasing day by day**

To know whether the involvement of people in stock market (for different purposes) is increasing terrifically day by day or not, the question has been asked to respondents “Are the people involvement in stock Market is increasing day by day?”

Respondent’s responses are tabulated as follows:-

**Table 4.15**  
**People involvement in stock Market is increasing day by day**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	75	5	25	20	100
B	10	67	5	33	15	100
C	2	8	23	92	25	100
D	1	10	9	90	10	100
E	0	0	10	100	10	100
<b>Total</b>	<b>28</b>	<b>35</b>	<b>52</b>	<b>65</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey,2012*

From the above table, it has been clearly defined that involvement of people in stock market at current days is not increasing day by day. Where only 35% have declared that involvement is increasing but 65% have stated that involvement of people in stock market is not increasing day by day or it is not satisfactory. In conclusion, due to of high

risk in current market investment as well as many reason's people are not showing their willing for involvement in stock market.

In order to know the reasons of the people involvement in stock market, the question has been asked "Are the people involvement in stock market is increasing day by day? Why?"

The responses received from the respondents listed below:

Some appropriate reasons related in the terms of favor of the question are,

1. People are getting related investment opportunity and to earn certain return and profit from it. As well as they are having awareness about the investment and return too.
2. Different policies are brought by the stock exchange and security board of Nepal, to secure investor's capital and for other different purpose too. As well as people are highly educated and full of eager fro practicing such activities.
3. After 2005/06 movement there was the great hope of Nepalese citizen about the long run peace and expecting economic development in the country.
4. People are being motivated to involve into stock market with high degree of desire because they are getting information and notifying about stock behaviour or capital market through newspaper another informational tools.
5. Because of increasing awareness among Nepalese regarding an opportunity to invest their wealth: so as to mobilize their illiquid money into the market.

Reasons related in the terms of unfavorable of the question,

1. Because of not having clear provisions, decreasing industrialization activities and unconstitutional of political situation.
2. Day by day changing capital market/stock related rules & regulations and liquidity crisis in the bank and finance etc. are the main causes of decreasing involvement of people in securities transaction.

3. Unstable political condition and decline of economic growth of the country are also the reason of not paying any attention in the securities trade.
4. Adequate current policy is not favorable in the term of benefiting investors and to other; who are directly or indirectly close with it.
5. Unfriendly and unfavorable governmental policy is also a reason.
6. Investors are not involving in the transaction and other behavior; at present investors are decreasing day by day due to continuous fall of the market's return.
7. NEPSE index is declining day by day and the policy market/regulator of the government and other concerned bodies are not in favor of the investors.
8. Unconstitutional movement did not create good environment in our stock market.

#### 4.2.18 Objectives to involve of Investors into Stock Market

People to people, the objectives could be different; some want to earn short-term profit or Long-term profit as well as some desire to have both of them.

To understand their point of view about the return from their investment fund into stock market, the question has been asked to respondents "Do you think, people who invest their money into stock market, does they invest to earn short-term profit or Long-term profit?" The respondent's responses are tabulated below:

**Table 4.16**  
**Objectives to involve of Investors into Stock market**

Responses/ Respondents	Short- Term Gain		Long-Term Gain		Total		Remark (Both- Gain)	
	No.	%	No.	%	No.	%	No.	%
A	20	100	0	0	20	100	0	0
B	10	67	5	33	15	100	0	0
C	15	60	5	20	25	100	5	20
D	5	50	0	0	10	100	5	50
E	4	40	6	60	10	100	0	0
<b>Total</b>	<b>54</b>	<b>67.5</b>	<b>16</b>	<b>20</b>	<b>80</b>	<b>100</b>	<b>10</b>	<b>12.5</b>

*Source: Opinion Survey, 2012*

[Note: - At questions do not included <Both profit> as an option between short-term and long-term profit respectively] from the above table, it could be clarify that 67.5% of the respondents shows the enthusiasm to earn short-term gain from the investment, as well as 20% has shown their desire to earn Long-term Gain but there was no any option for both; the respondents made the option and ticked it on. So, altogether 12.5% want both-Gain (i.e. short- term gain and long-term gain). It shows that people who are involve in stock market directly or indirectly they are well known about the international provisions and very much sincere towards their job. In conclusion, people have their own objectives to investment such as short-term gain, long-term gain and other has both-gain, objectives respectively. But also, people want to get return from the market as soon as possible. So, respondent's responses to earn short-term gain than other.

#### **4.2.19 Different Foreign Government are Allowing the Provisions of Long-term Gain and Short-term Gains Tax Rate**

In order to know the reasons and understanding the view of identified above provisions, for the implement in Nepal; question has been asked, and “Do you know, in many different foreign countries, government allow the provisions of long-term gains and short-term gains, tax rate? Why?” the responses received from the respondents listed below:

1. Yea, to encourage investors to hold their security in long term as well as in both term and to give the benefit of inflation effect in the future.
2. This, long-term and short-term provision help to initiate investors to invest their saving fund and for the betterment of the stock market's boundary.
3. Each and every country wants to develop their own rules and regulation that would benefit their citizen and pose up economic growth.
4. This provision could encourage the investors to invest into the stock market and it helps to reduce risk at present and in future as well.
5. It promote for encouraging investment balance.
6. Long-term and Short-term capital gains tax provision is prior to investor, for the purpose of making safe and secure their investment.

7. Yes, this helps to promote capital infrastructure and could provide strong way to boost up or rebuild the industrial and commercial sector in the country.
8. Because, this step could bring the good co-operation and co-ordination between government and entire stock holders as well as with stakeholders.
9. This provision helps to encourage investors to flow their fund into the market
10. To encourage for the investors because it would be charge under the balance method and which effect positive for strength in holding capacity and vise-versa.
11. Such policies are formulated as per the need and demand of investor's enthusiasm and to contribute their portfolio too.

To know whether the provisions that the foreign countries are accomplishing; shot-term gains and Long-term gains, capital gains tax rate should implement in Nepal, the question has been asked to respondents.” Do you wish that, this provision should implement in Nepal?” the respondent's response are tabulated below:

**Table 4.17**  
**Certain Provisions should Implement in Nepal**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	0	0	20	100
B	15	100	0	0	15	100
C	25	100	0	0	25	100
D	10	100	0	0	10	100
E	10	100	0	0	10	100
<b>Total</b>	<b>80</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey, 2012*

From the above table, it has been stated that 100% responses than Long-term gain, and Short-term gain, tax rate provision should be implement in Nepal. In conclusion, all investors and other personal are waiting for the implementation of the provision by the government bodies into the stock market.

#### 4.2.20 Possibility of Establishing another Stock Market in Future

Nepal Stock Exchange is only one stock market in Nepal, which is covering overall capital market. So, to know whether the establishment of another stock market has any possibility in future, the question has asked to the respondents. “In Nepal, is there any possibility of establishing another stock market in future?” The respondent’s responses are tabulated below s follows:

**Table 4.18**  
**Possibility of Establishing another Stock Market in Future**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	0	0	20	100
B	10	67	5	33	15	100
C	20	80	5	20	25	100
D	4	40	6	60	10	100
E	10	100	0	0	10	100
<b>Total</b>	<b>64</b>	<b>80</b>	<b>16</b>	<b>20</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey,2012*

From the above table, it has clearly present that 80% of the total respondents agreed that another stock market is very much essential in current days similarly 20% of the total respondents thought that it does not have necessary because market is low and involvement of people is not satisfactory. Then, in conclusion it can be say that in future it might be have possibility of establishing another stock market.

#### 4.2.21 Benefit to all Investor of Nepal, Decentralizing its Work Area by 34 Stock Brokers.

To know whether the investors of Nepal has benefited by decentralizing brokers work place by opening branches in different urban areas, the question has been asked “ Altogether there are almost 34 stock brokers in Nepal; before 5-6 months ago it has being



decentralized by opening branches in different urban areas, Does it benefit to all investor of Nepal ?” The respondent’s responses are tabulated below:

**Table 4.19**  
**Benefit to all Investor of Nepal, Decentralizing its Work Area by 34 Stock Brokers**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	50	10	50	20	100
B	9	60	6	40	15	100
C	25	100	0	0	25	100
D	10	100	0	0	10	100
E	10	100	0	0	10	100
<b>Total</b>	<b>64</b>	<b>80</b>	<b>16</b>	<b>20</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey,2012*

Above table clearly stated that, by opening branches in different urban areas as decentralizing its work place by 34 stock brokers; have benefit to all investors of Nepal. They can do buy & sell and can get easily information of market and companies that they are holding, easily and without any cost, so , from total 80 respondents 64 respondent ( i.e. 80%) has been confirm that , they are beneficial and only 16 respondents (i.e. 20%) are disagree with the statement.

But also, overall it can be concluded that, decentralization of stock broker area have been helped who are far from the Katmandu and vise-versa.

#### **4.2.22 Government of Nepal; Co-operating with Investors’ Will**

(Such as to safe their capital, making free from political issues and norms, providing way to involve for NRN in investing etc.) Governmental co-operation plays very much essential role into the share market because government is the formation and regulator of policies respectively. Therefore, government should have co-operate and understand the investors’

desire and voices too. Then, only it helps to boost up the economical and capital growth respectively.

To know whether governmental of Nepal is co-operating with investors' will, the question has been asked "Government of Nepal, does co-operating with investors will?"

(Such as to safe their capital, making free from political issues, norms, not providing way/environment to involve for NRN in investing, foreign investors etc.) The respondents' responses are tabulated below as follows:

**Table 4.20**  
**Government of Nepal; Co-operating with Investor's will**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	9	45	11	55	20	100
B	0	0	15	100	15	100
C	0	0	25	100	25	100
D	0	0	10	100	10	100
E	9	90	1	10	10	100
<b>Total</b>	<b>18</b>	<b>22.5</b>	<b>62</b>	<b>77.5</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey, 2012*

Altogether 62 (i.e.77.5%) respondents responses that government does not co-operating with the investors will and only 18 respondents responses (i.e. 22.5%) that government is co-operating with the investors. But if we look carefully on the above table, then we can state that respondents group C (individual investors) 100%, group B (brokers) 100, group D (entities investors) 100 respectively argue that government of Nepal are not co-operating the investors' will and not supporting theirs' voices too. These groups are the main head for promoting the capital market and paying revenue as capital gains tax.

#### 4.2.23 Decreasing Capital Gain Tax; the Transactions of Share and Market per Share will Increase

To know whether decreasing capital gains tax rate could increase the transactions of share and market per share, the question has been asked “Do you think that by decreasing capital gains tax rate, does the transactions of share and market per share will increase?” The respondents’ responses are tabulated below:

**Table: 4.21**

#### **Decreasing Capital Gain Tax; the Transactions of Share and Market per Share will Increase**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	60	8	40	20	100
B	9	60	6	40	15	100
C	25	100	0	0	25	100
D	10	100	0	0	10	100
E	4	40	6	60	10	100
<b>Total</b>	<b>60</b>	<b>75</b>	<b>20</b>	<b>25</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey,2012*

From above table it can be represent that, if the rate of capital gains tax on stock turnover will decrease then the stock turnover and rate per share would be increase. Therefore, altogether total 60 respondents (75%) are on the side of ‘Yes’ and 20 respondents (25%) are on the side of 'No'. Individual investors are suffering huge losses due to the market crisis, so they want of decreasing tax rate for some limited time period and institutional investors are also supporting this point by 100% respectively. This is essential only for temporary purpose because it could be some relief to investors.

At the time of field visit many of individual investors are advices that in this crisis government must give facilities of exempt from the tax; by introducing some certain criteria or provisions.

#### 4.2.24 Causes of Declining Stock Market's Transactional Behaviour

In order to know the causes of decreasing transaction of share in units and in amount in fiscal year 2010/11 than previous year, a question has been asked, "In fiscal year 2010/11, turnover of total shares in unit have increased by 0.03446% but amount has decreased by 43.76% than compare as with previous fiscal year. So, what could be a reason?"

Respondents are requested to rank their answer from 1 to 8 lists Respondents' responses are tabulated below:

**Table: 4.22**  
**Causes of Declining Stock Market's Transactional Behaviour**

S. N.	Major Causes	Group					Total Points	%	Rank
		A	B	C	D	E			
1	Political crisis, during the fiscal year	138	103	214	98	77	630	21.88	1
2	Cause of Globle Market crisis	88	54	72	16	12	242	8.40	7
3	Decreasing the transaction of commercial banks and other financial institutions	62	38	81	33	35	249	8.65	6
4	Due to of scarcity of money in market/liquity crisis,	114	96	186	62	96	554	19.24	2
5	Increasing Capital Gain tax rate on Corporate sector	80	51	102	39	56	328	11.39	4
6	Not providing loan to investors by banks and other financial institutions	71	78	96	46	33	324	11.25	5
7	Due to modification of monetary policy	113	82	107	54	43	399	13.85	3
8	Unknown	54	38	42	12	8	154	5.35	8
<b>Total</b>		<b>720</b>	<b>540</b>	<b>900</b>	<b>360</b>	<b>360</b>	<b>1800</b>	<b>100</b>	<b>8</b>

*Source: Opinion Survey, 2012*

Causes of declining stock market transactional behaviour is ranked according to the respondents as follows:

1. Political crisis, during the fiscal year.
2. Due to of scarcity of money flow in market/liquidity crisis
3. Due to modification of monetary policy
4. Increasing capital gains tax rate on corporate sector
5. Not providing loan to investors by banks and financial institutions
6. Decreasing transaction of commercial banks and other financial institutions

- 7. Cause of Global Market Crisis
- 8. Unknown (Other reason)

Subsequently, it can be concluded that the political crisis, during the fiscal year, due to scarcity of money flow in market/liquidity crisis, due to modification of monetary policy, increasing capital gain tax on corporate sector. Full supported to be the causes of declining the stock market transactional behaviour.

Therefore, political crisis is not only creating negative influence into stock market transaction but it has been directly impact on the economic growth of the country. So, without the political stability in our country there will no be activities of development and economic growth of the country. And this is the voice of all Nepali citizens.

#### **4.2.25 Efficient and Qualitative Monetary Policy Affect the Stock Market’s Behavior**

Monetary policy plays vital role in the fluctuating the stock market behavior. So, to know whether the monetary policy affect the stock market’s behavior, the question has asked “Does monetary policy affect the stock market’s behavior?” The respondents’ responses are tabulated below:

**Table: 4.23**

#### **Efficient and Qualitative Monetary Policy Affect the Stock Market’s Behavior**

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	0	0	20	100
B	15	100	0	0	15	100
C	25	100	0	0	25	100
D	10	100	0	0	10	100
E	10	100	0	0	10	100
<b>Total</b>	<b>80</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>80</b>	<b>100</b>

*Source: Opinion Survey,2012*

From the above table, it could be concluded that efficient and qualitative monetary policy affect the stock market’s behavior because 100% has been agreed with the statement.

Subsequently, it has been asked that “And what do you think about current’s monetary policy.” and requested to fill up the reasons for the respondents. The respondents’ responses are given below;

1. Firstly, financial policy of government is not concentrated to save national industries; secondly, monetary policy is not focused to an improving capital market.
2. Current monetary policy of Nepal does not have any influential elements that motivate investor to investment into Nepalese stock market.
3. Current monetary policy is not fair. Due to of increment of interest rate and share loan amount providing to the investor is very low, so the government at present should provide the high amount of money at the reasonable rate to the investors than before.
4. Current monetary policy is not flexible for good investors.
5. Current monetary policy is not a good one because it is directly helping to move toward stock market crisis.
6. Present monetary policy which came into existence recently has to some extent to boost the morale of the investors. In overall, it is not satisfactory.
7. Lack of good knowledge on the policy maker.
8. Current monetary policy of Nepal does not helps to create favorable environment condition to investors for investment into the stock market.
9. Current monetary policy is very liberal policy and effective also.
10. This policy is not encouragable towards increasing investment and it frequently helps to initiate on creating liquidity crisis.
11. Current monetary policy is not favourable to the stock market.

#### **4.2.26 Cause of Governmental Inefficient and Negligence towards the Development of Nepalese Stock Market**

Government has the essential and vital role on the development of stock market but government of Nepal has not shown any intention to build up the capital market. So, people could not found any secure to invest their saving fund into the capital market. Therefore, regarding role of government for the development of stock market, respondents are requested to rank their response on 1 (most important) and 4 (least important). The question

has been asked “Why government of Nepal is not giving even some minor priority towards the stock market of Nepal on the development of its area?” similarly respondents’ responses are tabulated below:

**Table: 4.24**  
**Cause of Governmental Inefficient and Negligence towards the Development of Nepalese Stock Market**

S.N.	Major Causes	Group					Total Points	%	Rank
		A	B	C	D	E			
1	Revenue from Capital gains tax is not huge amount	28	40	80	20	15	183	22.88	3
2	Other important or major public issue are on the movement	80	40	28	30	28	206	25.75	2
3	Their's main job is only to collect revenue	60	60	85	15	22	242	30.25	1
4	Unknown	32	100	57	35	35	169	21.13	4
	<b>Total</b>	<b>200</b>	<b>150</b>	<b>250</b>	<b>100</b>	<b>100</b>	<b>800</b>	<b>100</b>	<b>4</b>

*Source: Opinion Survey ,2012*

The causes of governmental inefficiency and negligence towards the development of Nepalese stock market are ranked in order of the preference the respondents are as follows:

1. Theirs’ main job is only to collect revenue
2. Other important or major public issues are on the movement
3. Revenue from capital gains tax is not huge amount,
4. Unknown (Other Reason)

There are many other reasons but also some common reasons are mentioned to know the view of different persons/respondents. Then, according to the above ranking it can be concluded that the main job of government is only to collect the revenue from the investors, other important or major public issues are on the movement are the most important causes of inefficiency and negligence towards the development of Nepalese stock market.

#### **4.2.27 Major Findings of the Study:-**

##### **(a) Major finding from secondary data:-**

On the basis of secondary data presentation and analysis in above mention chapter 4, some important findings of the study are summarized below:-

1. The study shows that the collection of total revenue is in increasing trend. In FY. 2009/10, It is Rs. 179945.8 millions and Rs. 199818.7 millions in FY. 2010/11. On the other hand contribution of tax revenue to total revenue in FY. 2009/10 is 86.86% and FY 2010/11, it is 86.47% but the contribution of Non-tax revenue is very low comparisons with the tax revenue. Non-tax revenue's contribution to total revenue is 13.14% and 13.53% in FY. 2009/10 and FY 2010/11 respectively.
2. In fiscal year 2010/11, tax rate of capital gains tax is decreased to 10%, which is increased by 33.33% than compare with previous year.
3. Capital gains tax is a sub-composition of income tax and it comes under the composition of Income from Investment. It does not have satisfactory contribution to the income tax but it has the emerging trend on the contribution. In FY 2004/05, contribution of capital gains tax to income tax remained at 0.07%, and in FY 2010/11, 2.43% respectively contributed to income tax. Consequently, the low contribution of capital gains tax occurred in FY 2005/06 and high contribution in FY 2007/08, 0.006% and 4.21% are the contributed rate of respective Fiscal Year.
4. Capital gains tax does not have effective contribution on the revenue but also it has the possibilities and capabilities on developing capital market and initiating on economic growth of Nepal; which is very much essential for developing country like Nepal. According to the available data from the FY 2004/05 to FY2010/11, we can notice that it have the possibility of satisfactory contribution to revenue in future. So, in FY 2005/06, Rs.0. 657 million and in FY 2007/08, Rs. 803.492 million & it is increased by 71194.8% than previous FY 2006/07, the lowest and highest revenue collection in the respective Fiscal Year. Contrast, in



FY 2010/11 the revenue collected Rs 880 million and it is decreased by 21.10% than compare with previous FY.

5. In FY 2004/05, Capital gains tax has contributed 0.010% to total revenue, similarly in FY 2007/08, 0.75% has contributed & it is highest contribution than before and after and in FY 2010/11, only 0.44% have been contributed to total revenue collection and it is low contribution rate than previous FY.
6. In fiscal year 2010/11, trading amount of Nepalese stock market is Rs. 6665.33 million and it is decreased by 43.76% than compare with previous year. But the transaction of share is on increasing trend than compare with previous year.
7. Nepalese Tax Revenue includes both direct and indirect tax revenue. We can find this study period, Indirect tax plays the dominant role in Nepalese tax revenue structure. The contribution of direct tax and indirect tax to total revenue is 24.0% and 76% respectively in FY 2010/11. This study shows that Nepalese tax revenue structure is not good. To improve the tax structure, we also need to increase the contribution of direct tax to total tax revenue.
8. The contribution of Income tax, House, land registration tax and Vehicle tax revenue in FY 2001/02 were 84.02%, 10.68% and 5.3% respectively, which reached to 87.50%, 8.33% and 4.17% in FY 2010/11. This study shows that income tax's contribution is in increasing trend but House, land registration and vehicle tax is in fluctuating trend.
9. The contribution of Custom duty, Excise duty and VAT on Indirect tax is 44.06%, 13.25% and 42.69% respectively in FY 2001/02. And in FY 2010/11 their contribution is 29%, 21% and 50% respectively. It shows that the custom duties were in decreasing trend but Excise duty and VAT were in increasing trend.

10. Contribution of direct tax to GDP is very low comparison with indirect tax. Direct tax's contribution to GDP is 2.46% in FY 2001/02 and 2.64% in FY 2010/11 respectively. This indicates that its contribution is fluctuated, after FY 2006/07 its contribution is in increasing trend.
11. Contribution of Indirect tax to GDP is 6.67% in FY. 2001/02 and 7.48% in FY 2010/11. During this study period, indirect tax contribution to GDP is in increasing trend.
12. Income tax has been considered as suitable sources for mobilization internal resources. It can be used as a positive instrument to boost up government revenue collection to develop the economic condition of Nepalese people and promote distribution justice and to cure resource gap problem.
13. Corporate income tax, individual income tax, employment tax and interest on other taxes are the major sources of income tax. These all income taxes are included, when the total income tax is calculated. During this study period all those taxes contribution were in increasing trend.
14. Import, Export, Indian excise refund and others taxes are the major sources of Custom duty. Those all taxes are consider while calculating the total custom duty. This study period all those taxes contribution were in fluctuating trend.
15. Private sector contribution to CITR is higher than Public sector contribution. Private sectors contribution is 44.38% and 92.09% in FY 2001/02 and 2010/11 respectively but public sector contribution is 55.62% and 7.90% in FY 2001/02 and FY 2010/11 respectively. During this study period, the average portion covered by public and private sector is 24.73% and 75.27% respectively.
16. The domestic resource gap in FY 2001/02 is Rs. 29626.6 millions and Rs. 95544.4 millions in FY 2010/11. This indicates that domestic resource gap is in

increasing trend. Average resource gap is Rs. 50665.44 millions, during this study period.

17. Total government revenue's contribution to total government expenditure is 63% in FY 2001/02 and 67.65% in FY 2010/11. This indicates that the government revenue's contribution to total government expenditure is in fluctuating trend. Its average contribution is 66.78%. Similarly, the contribution of foreign aid is 17.95% and 19.16% in FY 2001/02 and 2010/11 respectively. Its average contribution is 17.395. This indicates that Nepalese government expenses were maximum bearded by government revenue. But foreign aid contribution also in increasing trend, which is not good for our country.

**(b) Major finding from Primary Data:-**

1. Nepalese government would not able to collect expected or budgeted tax revenue from direct and indirect tax. That means the revenue collection from direct tax and indirect tax is not satisfactory as it had been expected.
2. In fiscal year 2007/08, Capital gains tax from stock market has been contributed approximately 1% on total tax revenue of Nepal but, in fiscal year 2008/09 it has been limited to 0.51%. Similarly, according to the opinion of the respondents, it is found that capital gains tax has the emerging trend on contributing to increase government revenue. Almost 35% have thought that capital gains tax is another source of contributing government revenue.
3. Maximum number of respondents is not satisfied with the contribution of direct and indirect tax to national revenue of Nepal.
4. According to the respondents opinion, it is found that in current condition there is no any favorable policy to benefit investors (i.e. especially individual investors and entities investors). Altogether, 41% have thought that there is not any effective and favorable policy that could benefit investors and rest of them thinks that there is some favourable policy that is benefiting investors.

5. In Nepalese stock market there is no any provisions of short-term profit and long-term profit, capital gains tax system. But in many different country such as in, India, USA, UK, Germany, Sri Lanka etc. Are accepting such provisions. According to the respondent's survey, it is found that 100% of the respondents are enthusiastic to regulate such provisions in Nepal. And from the respondents' responses it can be clearly stated that the people are like to earn short-term profit than long-term profit; where 67.5% desired to earn short-term gain.
6. Most of the respondents thought that existing income tax system is not effective. In efficient income tax administrative, practice of tax evasion, lack of education to tax payers, complicated income tax act, rules and regulation, lack of training and sufficient incentive to employees etc. are the major problem of income tax system in Nepal.
7. In Nepal another stock exchange is required because, total market capitalization has decreased by 14.17% and reached to Rs. 323484.34 million at the end of the period, FY 2010/11. Which is huge amount in the contest of Nepalese market. As well as, 207 total listed companies are registered for trading at NEPSE. Therefore, 75% respondents thought that there is the possibility of establishing another stock market in future because many different financial institutions & other company are willing to establish and issue the share in future.
8. For the economical development of country, capital formation and development is very much essential. But government is not giving even some minor priority for the development and not regulating any initiative procedures towards capital market reform. Therefore, it is creating hesitation in the investing environment of investors. Although, 77.5% of the total respondents responses that, government of Nepal is not co-operating the investors' will and supporting theirs' voices too.
9. For the purpose of re-establishment of stock market, the government should modify on the tax rate of capital gains tax. Such as by reducing the tax rate, tax

exemption etc. criteria should be regulating for the short-term purpose. Similarly, 75% respondent desired that for the increasing; trading amount of stock and market per share, the rate of Capital gains tax should be decrease.

10. The main reason of declining stock market transactional behavior has found that, political unstable and crisis during the fiscal year 2010/11. Where trading amount decreased to Rs.6665.33 million and reduced by 43.76% than previous fiscal year 2010/11.
11. Effective and qualitative monetary policy affects the stock market behavior, directly as well as frequently. But, current monetary policy on the behalf of stock market is not encouraging towards increasing investment and it frequently helps to initiate on creating liquidity crisis.
12. The study find out that the main reason of governmental inefficient and negligence towards the development of Nepalese stock market is that, they thought that theirs' main job is only to collect revenue. But they should not forget that stock market development helps country's economic growth in many ways.
13. From the study it shows that, opening branches by 34 stock brokers in different urban town of country, it seems that it is benefiting to the general investors who are scattered at different part of country. Therefore 80% belief that this programme is benefiting to the investors and stakeholders too.
14. Market monitoring task is difficult due to lack of peace and security

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary:

Nepal is one of the least developed countries of the world has always suffering from economic disaster. Lack of sufficient financial resources is the major constraint of economic development in developing countries like Nepal. Moreover, Nepal has a great problem of misuse of available resources, lack of good governance, which has slowed down the development of the nation. In this situation, to increase the government revenue Nepalese government is trying to extract money or valuable contribution from people through taxation. In developing countries like Nepal, total expenditure has been increasing every year due to the expansion of government activities. Nepal is always facing with the financial problem every year. There is a serious problem of resource gap, which is in increasing trend. In Nepal, government accumulates require fund mainly from internal and external source to finance regular and development expenditure, because of the inadequacy of the internal sources for the development of the nation, Nepal comes under compulsion to rely on foreign loan and grants. Nepal has been unable for proper mobilization of internal resources therefore fiscal deficit of Nepal has been increasing day by day. Among the internal resources tax is pivotal one. Tax should play important role to solve the problems of fiscal deficit. But in Nepal actual collection of revenue through tax is lower than estimated targets it is so because of the poor taxpaying habit of Nepalese tax payer, poor administrative system and widespread evasion of tax.

Tax revenue can be classified as direct tax and indirect tax. A direct tax is really paid by same person on whom it is legally imposed. Tax payer cannot collect direct tax from other. Income tax, property tax, vehicle tax, house and land tax, contract tax, gift tax and interest tax etc. are the main sources of direct tax. Similarly, an indirect tax is imposed on one person but paid partly or wholly by another. Custom duty, VAT and excise duty, sales tax, entertainment tax, hotel tax etc. are the main part of indirect tax.

To solve this problem, income tax is the most important source for collecting internal

revenue in which development of stock market of Nepal could be fruitful because it helps country's economic growth in many ways. By development of stock market, it does not only increase the revenue of government (Capital Gains Tax) but also plays the role that is usually ascribed to them- attracting foreign investment, boosting domestic saving in the country. Regarding this fact, this study attempts to the Capital gains tax and its impact on Nepalese stock market.

In third chapter, it has been discussed about various aspect of research methodology. Descriptive, analytical, empirical research design has been used to research the study on the topic. Total 80 respondents are selected to fulfill the objectives of this study and total respondents are divided into five group; Income tax administrator, Brokers, Individual Investors, Entities Investors and Tax Expertise are the population of this study and 20,15,25,10,10 respectively are the sample size of the population for the study. Secondary sources of data are the major source of studying purpose and primary data also collected by using survey method for the course of Nature and sources of data collection. The procedure of data collection for the purpose of research have been clearly identified into this chapter. Similarly, analytical tools such as table percentage, different charts, diagrams percentage, trend lines, times series, average etc are used for the purpose of data processing and analytical procedures.

The fourth chapter of this study is presentation and analysis of data, it is consists of both primary as well as secondary data which has been analyzed to give the actual and meaningful result. Economic surveys, Budget speeches, Annual reports of Inland Revenue Department, Annual report of Nepal Stock Exchange, Annual Monetary Policy of Nepal and websites of NRB, MOF, IRD, etc. are the major sources of collecting secondary data that are related with stock market of Nepal. Primary data have been collected by opinion survey technique. From the five group of respondents; Income Tax Administrators, Brokers, Individual Investors, Entities Investors and Tax Expertise, the empirical investigation has been responded.

Secondary analysis has been done by presenting the relevant data into tables and figures consisting Eleven years period, i.e. from fiscal year 1998/1999 to 2010/11. But due to unavailable data of capital gains tax, only of six year has been presented i.e. 2004/05 to 2010/11. The comparative analysis for different years done in the analysis part of the study. Major findings of the secondary data analysis have been putted at the end of the chapter. Data obtained from opinion survey with the respondents are tabulated and analyzed to achieve desired end result.

On the base of study period every F/Y's total revenue is on increasing movement. In FY 2010/11 total revenue is increased to Rs. 199818.7 million and it increased by 11% than previous FY. Similarly, tax revenue has contributing more than 75% every FY and Non-tax revenue has contributing more than 20% every FY. But in FY 2010/11 tax revenue collected Rs. 172777.6 million and it is increased by 10.54% than previous FY and non-tax revenue collected Rs. 27041.1 million and it is increased by 14.13% than previous FY

Due to the unavailable data of revenue from capital gains tax only of seven year has been given. So, in FY 2004/05, total capital gains tax collected Rs. 7030 thousand and in following FY, total capital gains tax collection decreased to Rs. 657 thousand & it is decreased by 90.65% than compare with previous FY. In FY 2009/10, total capital gains tax collected Rs 1040 million & it is increased by 36.55% than previous FY. And it is high amount of collection than ever before and after. Although, in FY 2010/11, capital gains tax collected Rs 880 million and it is decreased by 15.38%

Similarly, the contribution of revenue form capital gains tax to total revenue in the F/Y 2004/05 remained at 0.010% and in FY 2007/08, at 0.75%; it is high rate of contribution made to total revenue than ever before. And in FY 2005/06, only 0.001% of contributed to total revenue collection. And in FY 2009/10, 0.58% of contributed to total revenue collection. Although, in F/Y 2010/11, 0.44% contributed by capital gains tax to total revenue collection of Nepalese government & the contribution rate is on decreasing trend than previous F/Y's contribution to total revenue collection.



The securities transaction from the fiscal year 2003/04 to 2010/11 has been presented and comparing with previous year's transactions. In fiscal year 2005/6, total Rs 3451.43(million) amount of securities are traded and it is increased by 110.22% than previous year. Similarly, in fiscal year 2007/08, total Rs. 22820.76 (million) amount of securities are traded and it is increased by 172.97% than previous year; as well as this total amount of securities trade is high than other years' total amount of traded. But in fiscal year 2010/11, total amount of securities trade is decreased by 43.76% than previous fiscal year and total amount Rs. 6665.33(million) is being traded during the fiscal year 2010/11

On the basis of empirical investigation we can found that, the main reason of declining stock market transaction and revenue form capital gains tax is political unstable and crisis during the FY 2010/11. 78% respondents' responses that government of Nepal is not co-operating the investor's will and not supporting their voices too. So, the investors are getting highly frustrate and hesitating to invest their fund into the capital market. Effective and qualitative, monetary policy affect the stock market behavior directly and frequently but also there is no favorable policy that could benefit investors in current condition. In many different developing as well as developed country, are regulating the provisions of short-term and long-term profit gains tax system, but in Nepal there is no still on progress. For that 100% are enthusiastic to be regulate such provision in our country very soon as possible as well as 67.5% desired to earn short-term profit than long-term profit. Similarly, at the time of opinion survey, some respondents advices that, there should be effective and qualitative monetary policy that could promote the stock market efficiently and government should give attention for the development of this market's area & should be made rid form the political issues to this organization. The concept of Mutual fund, entry of foreign investors (NRN) and institutional investors into the capital market is very much essential for the development of stock market; so government of Nepal should initiative into the action. Other wise investors' investment could be spoil and government has to loss the investment into the country. And some of the respondents advice that for the quick recovery of the stock market of Nepal,

government of Nepal should implement the provisions of tax exempt or deduction of capital gains tax for the short time period. Therefore, it is to be said that development of stock market do promote long term growth of national economy.

## **5.2 Conclusions**

Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period. Now a day, prime concern of every nation of continuing process. Nepal aims for self- reliant economic system to upgrade its living standard of people. Thus a lot of money has to be spent to achieve maximum national objectives.

In mean time, Nepal has been suffering from capital shortage to accelerate the economic growth and national deficit is increasing year to year. So, to manage fund for the operation of development programme of country, government are gathering funds from, foreign loans, grants, external borrowing etc. but external sources are uncertain, inconvenient and not good for long run development purposes of nation. Therefore, internal sources are better to mobilize and preferable for sustainable economic development for the long run.

Tax revenue is the important source of government revenue. Taxation is regarded as effective economic activities in a country. Governments collect revenue for economic development and economic stability. Taxation is the stability sources of government revenue since it occupies the most important place is in the government treasury. Therefore, there are many sources of collecting revenue under government head but also Capital gains tax has its own importance and contribution in the governmental circumstances. Similarly, in fiscal year 2010/11 revenue collection from capital gains tax is Rs. 8880 million and contribution into total revenue collection remained at 0.44% but previous year's contribution to total revenue collection occurred 0.58% this seems terrific contribution in the future

Although, capital gains tax has an emerging trend in future. If the provisions of Capital

gains tax would modify and introduces new policies as well as law must be transparent and strengthen; it could attract many new investors such as institutional investors, foreign investors and new domestic investors into the stock market. Due to the involvement of many investors with different objectives would create situation of high turnover of stock quantity. Therefore, on the base of increasing stock turnover revenue from capital gains could be increase.

There are some facts that have seen after the study. They are given below as follows:

1. In the provision of present capital gain tax, tax is imposed on capital gains from the trading of securities but there is no clarity regarding the write off of capital losses incurred and there is also a problem of establishing net gains in the trading of securities. So the provision of capital gain tax should be rationalized in view of present initial stage of securities market development. Therefore, the policy maker should introduce it by clearly that all could understand and helps to create confidence for investors.
2. Monetary Policy of the Central Bank has a profound influence on the performance of the securities market. But, due to changes of policy regularly and unexpectedly, it became as unfavorable to investors; investors are not confidence towards investment. So, policy maker should consider the policy that could be stable for the long run and policy should focus the investors' voices which create great enthusiasm of investment into the share market.
3. The future of Nepalese stock market largely depends on the positive role of the government. Government of Nepal without debate should have supportive role in the development of stock market like in other developed markets. It can support in amending and revising securities act.
4. Government of Nepal has to be well aware on the role and significance of stock market in terms of the effective mobilization of funds, and it should give high

priority in its reform and development. Government should have to rationalize the tax provisions relating to stock market and stock investment as well; and government should set fiscal policy favorable to stock market growth and development. It is to be said that the development of stock market helps to contribute for the short-term economic growth and long-term economic development as well as.

5. Only increasing the capital gains tax does not be sufficient to increase government revenue but promoting is very much successful and essential for today's world. So, political and economic stability and growth-oriented policies as pre-conditions is important for the overall structure development of country.
6. Lack of appropriate and standard legal framework has been the major reason for not improving efficiency of regulation.
7. The decreasing of stock turnover; the main reason of decreasing stock turnover consist political crisis and second is due scarcity of money flow in market/liquidity crisis, third is due to modification of monetary policy and forth is increasing capital gain tax on corporate sector during the fiscal year 2010/11.
8. These are the conclusion of this research study. On the basis of these conclusions some recommendation has been done.

### **5.3 Recommendations**

After doing the research about the provisions of Capital gains tax and its impact on Nepalese stock market, following recommendations and suggestions are made to improve the current provision of capital gains tax related with stock market. And some important recommendations are made for the development of stock market in Nepal for the economic growth-oriented.

1. Provisions of Capital gains tax are not sufficient as well as it is not meeting the current global standard circumstances. Such as short-term and long term gains tax rate and other provisions that are missing onto the provision of Capital gains tax under the Income Tax Act 2058. This would be beneficial to both parties (i.e. to government and to investors); new provisions would be attracting investors' eager to invest fund into the stock market. And increment of stock transaction, government revenue from Capital gains tax could be increase. So these provisions should be included by modifying current provisions as well as other more provisions should be introduced by the related bodies.
2. Provisions of Capital gains tax should give high attention to individual investors because they invest their saving fund to get some return from the market. Similarly, government should not forget that from the establishment of stock market to till individual investors are only one investors who are playing the role of spirit to sustain stock market and providing contribution to government revenue.
3. Provisions of Capital gains tax related with the trading of securities and has its own importance. But there is no clarity regarding the write off of Capital losses incurred and there is also a problem of establishing nets gains in the trading of securities. So, the provisions of Capital gains tax should be rationalized in view of present initial stage of securities market development.
4. Capital gains tax rate should be decreased for the purpose of providing some relief to investors as well is could helps to maximize the participation of the investors. So, the trading amount of stock could be increased.
5. As visualized by the Act, many rules and regulation have to be developed for implementation of the Act. And Legal and regulator gaps in this respect should be duly addressed.

6. Weak regulatory mechanism, inefficient and limited services, insufficient basic market infrastructures, lack of professionalism in the service providers, etc. are the other critical issues of the securities market, which also need to be addressed.
7. For the effective and efficient regulation of the market, the regulator should have adequate capability. The capability of the regulator highly depends on the availability of resources. It should have sufficient resource to develop and maintain that expertise.
8. There is lack of accounting and auditing system that meets the demand of whole corporate sector of the country. So, these standards are to yet to effectively implement by empowering the regulators and creating required awareness in the corporate sector.
9. Only increasing the tax rate is not favorable for the increment of government revenue. Before taking some step, responsible authority should study and evaluate the conditions and available of infrastructures and facilities of the related field.
10. There should be good and stable political condition, because it helps to collect high rate of capital gains tax by huge transaction of securities in the market. But also, it contributes to whole country by having the stage of development and growth performance in the country.
11. Nepalese stock market largely depends on the positive role of the government; government of Nepal without debate should have supportive role in the development of stock market like in other developed markets.
12. Government can support in amending and revising securities Act. And Government should not take unnecessary long time to approve amendment in Securities Act.

13. Government of Nepal has to be well aware on the role and significance of stock market in terms of the effective mobilization of funds, and it should give high priority in its reform and development.
14. Government should have to rationalize the tax provisions relating to stock market and stock investment as well; and government should set fiscal policy favorable to stock market growth and development.
15. Government can play a significant role to bring the institutional investors like Employees' Provident Fund, Citizen Investment Trust, Retirement and Pension funds, and Insurance Companies into stock market with suitable policy and guidelines of investment.
16. The necessary policy guidelines and co-ordination of responsible agencies including government and central bank can attract for Non-resident Nepalese and foreign institutional investors into the secondary market of Nepal.
17. NEPSE is full ownership of government. So, it does not have appropriate job on stock market development. Therefore, government should provide permission and facilities to open new stock exchange, which helps in developing stock market and helps to contribute in collecting revenue as a Capital gains tax at high amount than as usually contributed.
18. Monetary Policy of the Central Bank has a profound influence on the performance of the securities market. But due to the changes of policy every year or even twice a year, it is creating negative impact towards the investors'; physically as well as psychologically. Therefore, policy should be introduced and implemented for the long-term purposes and after implementation it should not be changed again and again.

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## APPENDIX (QUESTIONNAIRE)

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“Provisions of Capital Gain Tax and its Impact on Nepalese Stock Market”

Name:-

Designation:-

Office:-

( Please tick your answer in the following options a well as rank in order of preference from one to last number, if there are four or more alternative. And I want to request to fill up the reason's blank area; according to the given questions.)

Questions for Questionnaire

1) Does increasing capital gain tax, could contribute to increase government fund?

a. Yes                       b. No

2) Are there any favorable policies to benefit investors?

a. Yes                       b. No

3) Are the people involvements in stock Market is increasing day by day? Why?

a. Yes                       b. No

Reasons-

.....  
.....

4) Do you think that, people who invest their money into stock market, does they invest to earn short-term profit or long-term profit?

- a. Short-term profit       b. Long-term profit

5) Do you know, in many different foreign countries, government allow the provisions of long-term gains and short- term gains, tax rate? Why?

Reasons-

.....  
.....

6) Do you wish that, this provision should implement in Nepal?

- a. Yes       b. No

7) In Nepal, is there any possibility of establishing another stock in future?

- a. Yes       b. No

8) Altogether there are almost 34 stock brokers in Nepal: before 5-6 months ago it has being decentralized by opening branches in different urban area. Does it benefit to all investor of Nepal?

- a. Yes       b. No

9) Government of Nepal, does co-operating with investor's will?

(Such as to safe their capital, making free political issue, norms, not provind way to involve for NRM in investment etc.

- a. Yes       b. No

10) Do you think that, by decreasing capital gains tax rate, does the transaction of share and market per share will increase?

- a. Yes                       b. No

11) In fiscal year 2067/68, turnover of total share in units have increased by 0.034% but amount has decreased by 43.76 than compare as with previous fiscal year. So, what could be a reason?(1 to 8 scale)

- a. political capital gains tax rate
- b. Cause of Global Market Crisis,
- c. Decreasing the transaction of commercial banks and Other financial institution,
- d. Due to of scarcity of money flow in market/liquidity crisis
- e. increasing capital gains tax rate on corporate sector
- f. Not providing loan to investors by banks and financial institutions,
- g. Due to modification of monetary policy,
- h. Unknown

12) Does monetary policy affect the stock market's behavior?

- a. Yes                       b. No

And what do you think about current's monetary policy.

Reasons-

.....  
 .....

13) Why government of Nepal is not giving even some minor priority towards the stock market of Nepal on the development of its area?(1 to 4 scale)

- a. Revenue from capital gains tax is not huge amount,
- b. Other important or major public issues are on the movement,
- c. Their's main job is only to collect revenue,
- d. Unknown

