

Chapter – 1

Introduction

1.1 General Background

Commercial banks play a vital role in the national revenue and prosperity. These banks mobilize and transfer the funds among the people. Banks are still the principal means of making payments. They are also the principal channels for the government policy. So, banks remain major players for expediting financial activities in the society.

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loans to the persons, parties or business organization that needs capital.” The saver is rewarded by the payment of interest on his saving which is safe and in highly liquid form. Their pooled funds are available to businesspersons who may use them for the expansion of their productive capacity and to consumers for such item as housing and consumer goods. Therefore, their primary functions are accepting deposits from public and firms and to extend credits to worthy borrowers. Bank lending is very important to the economy for its make possible and financing of agricultural, commercial and industrial activities of the nation. Bank loans to manufactures make possible the purchase of raw materials and machinery and the employment of labour which can be produced goods demanded by industry, government and the consumer in time. Comparative cost and national endowments have made trade imperative within the country and around the globe. Since buyers and sellers alive apart, neither the seller can dispatch the goods without obtaining money nor can buyer remit money without receipt of goods. Similarly, many big concerns have many branches in many countries of the world. That means the world is going to multinational trade. This is possible due to commercial bank’s services of financing for foreign trade such as issue of letter of credit and exchanging foreign currencies.

Commercial banks are the main institutions which are meant to collect and utilize small and scattered saving of the people. Commercial banks utilize the collected resources by financing production contribution and consumption even to the need of the government. Commercial banks also invest in the priority sector to maintain the rules and regulations of the government.

Due to unlimited and increasing human needs, many organizations and business houses are opened and competing to provide quality products and services to the customers. To produce goods and services, capital is one of four components of production (i.e. land, labour, capital and management). Capital formation was very difficult in those days when there were no formal institutions established for financing money. However, in the modern age, it has become easy due to establishment of many financial institutions.

Thus, a bank means a financial institution established for the transaction of money. It deals with money and credit activities. It accepts deposits from public and lends money to the borrower as a loan. It also creates credit and exchanges the foreign currencies. It is established to fulfill certain objectives such as to facilitate public economic interest, to advance loan for the development of agriculture, industries and trade and to provide banking services to the public.

Bank and financial Institute Act 2063 of Nepal has defined commercial banks, as “A commercial bank is a bank which deals with money exchange, accepting deposit, advancing loan and commercial transaction except specific banking related to co-operative, agriculture, Industry and other objectives.

According to American Institute of Banking “Commercial bank is a corporation which accepts demand deposits subject to check and make short-term loans to business enterprises regardless of the scope of its other services.”

A commercial banking is one of our oldest industries. The first bank was organized in 1782 before the adoption of our federal constitution and many of the banks that were organized in 1800s are still in operation

1.1.1 Commercial Banks in Nepal

According to A.C. Hart, “A banker or bank is a person or company carrying on the business of receiving money and collecting draft for customers subject to the obligation of honoring cheque drawn upon them time by the customers subject to the extent of the amounts available in their current accounts.”¹

Oxford Advanced Learners’ Dictionary of current English defines that bank is an establishment for keeping money and values safely, the money being paid out on the customer’s order (by means of cheques)²

Similarly, a definition is given in Encyclopedia, the world Book, American “A bank is a business organization that receives and holds deposits of funds from others and makes loans or extends credit and transfers funds by written orders of deposits.”³

Commercial bank is defined in the bank and financial Institute Act 2063 as. “A commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.”⁴

Thus , a bank means financial institution established for the transaction of money. It deals from public and lends money to the borrowers as a loan. It also creates credit and exchanges the foreign currency. It is established to fulfill certain objectives such as to facilitate public economic interest, to advance loans for the development of agriculture, industries and trade and to provide banking services to the public.

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loans to the persons, business organization and government when they require. The development of commercial banks is in increasing trend after the restoration of democracy in 1990 A.D. The first commercial banks is Nepal Bank Limited (NBL) that was established on 30 Kartik 1994 B.S. (1937 A.D). And the second which was Rastriya Banijya Bank (RBB) established in 10th Magh 2022 B.S.

After a long period of establishment of these two banks, NABIL Bank is the first commercial bank from the private sector. This is the first joint venture bank of Nepal also. There after many other joint venture and non joint venture banks were set up under the commercial Bank Act, 2031 and company Act, 2053. Now, Twenty Four commercial banks are operating in the country. From Bhadra, 2058 B.S. to Ashadh 2059 B.S. no applications were accepted for the establishment of new commercial banks with new policy relating to commercial bank issued by Nepal Rastra Bank considering that banking of entrance is not

¹M. Radhashwani and S.V. Bashudevan (1976), **A text Book of Banking**, New Delhi: S. Chand &company p.510

²A.S. hornby(ed.) (2000), **Oxford Advanced Learners’ dictionary of Current English**, Oxford University Press, Eighth Edition

³M.Radhashwami and S.V. Bashudevan, Op. Cit, p.512

⁴**Bank and Financial Institution Act 2063**

favorable in the liberal and market oriented economic environment and to create the competitive environment. Thus, It is expected that the number of commercial banks will be increased in future.⁵

According to new policy issued by NRB, the paid up capital of new opening commercial bank at national level must be Rs. 1000 million. Similarly, Rs. 500 million must be the paid up capital for the new commercial bank, which is opened with one function area in all the places expect Kathmandu valley.⁶

If the newly opened bank is joint venture with foreign bank or financial Institution, it is permitted to open new commercial banks with head office at Kathmandu valley permitted to open new commercial banks with head office at Kathmandu valley contracting three years management with 67% investment of foreign such institution, the ratio of ownership of share will be 7:3 between founders and public respectively.⁷

26 commercial banks in Nepal are listed below.⁸

Table: 1.1
Commercial Banks in Nepal

S.N	Name of Bank	Established Date	Head office
1	Nepal Bank Ltd.	1994/07/30	kathmandu
2	Rastriya Banijya Bank Ltd.	2022/10/10	kathmandu
3.	Nepal Arab Bank Ltd. (NABIL)	2041 /03/29	kathmandu
4	Nepal Investment Bank Ltd	2042/11/16	kathmandu
5	Standard Chartered Bank Nepal Ltd.	2043/10/16	kathmandu
6	Himalayan Bank Ltd.	2049/10/05	kathmandu
7	Nepal State Bank of India (NSBI)	2050/03/23	kathmandu
8	Nepal Bangladesh Bank Ltd.	2050/02/23	kathmandu
9	Everest Bank Ltd	2051/07/01	kathmandu
10	Bank of Kathmandu Ltd.	2051/11/28	kathmandu
11	Nepal Credit and Commerce Bank Ltd. (NCC.)	2053/06/28	siddharthanagar
12	Lumbini Bank Ltd.	2055/04/01	Narayangadh
13	Nepal Industrial and Commercial Bank Ltd.	2055/04/05	Biratnagar
14	Kumari Bank Ltd.	2056/08/24	Kathmandu
15	Machhapuchhre Bank Ltd.	2057/06/17	Pokhara
16	Laxmi Bank Ltd.	2058/06/11	Birgunj
17	Siddhartha Bank Ltd.	2058/06/12	Kathmandu
18	Global Bank	2007/01/01	Birgunj
19	Citizens Bank	2064/01/07	Kathmandu
20	Prime Bank	2064/06/07	Kathmandu
21	Bank of Asia	2064/06/25	Kathmandu
22	Sunrise Bank	2064/06/25	Kathmandu
23	Kist Bank		Kathmandu
24	NMB Bank	2008A.D	Kathmandu
25	DCBL bank Ltd.	2008 A.D	Kathmandu
26	Agriculture Development Bank	2024 B.S.	Kathmandu

Source: Nepal Rastra Bank

⁵Nepal Rastra Bank, **Banking Prabardhan**, 2059, Ashdh, p.7.

⁶Ibid

⁷Ibid.p.8.

⁸Nepal Rastra Bank, **Banking and Financial Statistices**, Vol. 45, July 2006, Bank and Financial Institutions Regulation Department

Hence, out of 26 commercial banks 20 are non joint venture and 6 are joint venture in investment with foreign banks. These all are profit oriented entities. They provide various types of services of public, business organizations and government. They play a vital role in the development of national economy. The commercial banks are money trader, for which they should be careful about the risk of money market and liquidity.

The functions of commercial banks are briefly described below.

1. To accept deposits
2. To provide loans and advances.
3. To perform agency functions.
4. To carry out utility functions

Thus, commercial banks perform above functions. They are profit-oriented entities. They provide various services to public, business organizations and government. They must pay income tax out of their net profits. Therefore, any bank which are established under the bank and financial Institute Act. 2063 and company Act. 2053, is the corporate taxpayer to the government.

1.2 Focus of the Study

Trading on money is very risky and challenging. On one hand, commercial banks should keep plenty of liquid funds to fulfill their customer's demand and on other hand, there will be equal chance of being idle of the liquid fund. So it is a very important thing to manage liquidity with balancing demand and supply. The main focus of the study is comparative analysis of managing liquidity in Nepalese commercial banks by taking 10 sample banks out of 26.

This study has also attempted to analyze the methods of liquidity management in various commercial banks in existing practice and new methodologies in this technical era. This study also concentrated on whether the theories on liquidity management founded by varies economist and bankers match in Nepalese context or not. After the 1995, there is a rumour that the Nepalese banks are full of high liquidity and they are not being able to manage it. Thus this study has also focused to analyze whether it is true or allegedly aired.

Thus, the main focus of the study is to find out how the liquid assets influenced and what is the real solution can be suggested.

1.3 Significance of the Study

Commercial Banks are always guided by the profitability. All financial decisions of commercial banks are for the betterment of shareholders wealth. There should be an effective system of funds allocation in order to safeguard the banks from the danger of liquidity. An appropriate level must be achieved between them. The study ponders to find out whether commercial banks are alert or not in this regard and possible situations where the banks need additional liquid funds.

A few studies have been made on the liquidity management in commercial banks. Most of the studies made up to present on capital market are related to financial performance, research have yet been made on the core perspective of the liquidity and its management. So the present study is of substantial importance for investors, planners, researchers, objectives. This study intends to help the national economy through mobilization of idle capital of

average Nepalese in productive sectors to accelerate the economic growth and to reduce dependency on foreign assistance and loan.

This study helps regulatory authority to find out liquidity management of the commercial banks. It is a reference to the concerned personnel and researchers. This study also shows and suggests the available investment opportunities satisfying both objectives (liquidity and profitability) of commercial banks.

1.4 Statement of the Problem:

Commercial banks are corporate bodies. They profit-oriented organization. They make profits from the financial transactions by rendering services to the public and business organizations and pay income tax to the government from their taxable income. There are also some problems in collection of income tax from commercial banks. Some commercial banks have not yet got audited their accounts for five to six years. This practice must be eliminated for the more generation in income tax. On the other hands, it is seen that commercial banks have appealed to revenue tribunal time . it shows there are some weakness in tax assessment such commercial banks and vague law and regulation of income tax and finance act. These are the main concentrated problems of this study to solve as far as possible to mobilize more resources through income tax from commercial banks.

24 commercial banks are rendering a wide range of services in Nepal. Commercial banks have opened their branches in urban areas but most of the people live in rural areas therefore people are not getting banking service facility all over the country. The major statements of problems are:

- i) Comparatively, when commercial banks contribute more income tax to government revenue?
- ii) How can the contribution of income tax from commercial bank be maximized?
- iii) How much income tax amount is being contributed by commercial banks in Nepal to total revenue?

1.5 Objectives of the Study

The main objective of the study is to analyze the tax collection from commercial banks to total government revenue. The specific objectives of this study are follows:

1. To study and analyze the proportion of contribution commercial banks to total tax revenue, total income tax and total corporate tax.
2. To analyze relevant opinions and views of bankers regarding income tax.
3. To point out and examine the main income tax related problems faced by commercial banks.
4. To provide necessary suggestions and recommendation about income tax collection with special references to commercial banks.

1.6 Organizations under Study

In this study nine sample banks are taken into consideration for the study on the basis of quota sampling among twenty four commercial banks in Nepal. A brief introduction of the sample banks is given here to become familiar with the organizations background and their performances:

1.6.1 Everest bank Limited(EBL)

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

1.6.2 Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

1.6.3 Nepal Arab Bank Limited (NABIL)

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system.

1.6.4 Nepal Industrial & Commercial Bank(NIC)

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about NPR 10,493 million.

The Bank has grown rapidly with 22 branches throughout the country while several branches are planned to be opened this year. All branches are inter-connected through V-Sat and are capable of providing real time on-line transactions.

The Bank is the first commercial Bank in Nepal to have received ISO 9001:2000 certification for quality management system. Furthermore, NIC Bank became the 1st Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide.

1.6.5 Bank of Kathmandu (BOK)

BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies
- To contribute to the overall social development of Nepal

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public

1.6.6 Lumbini bank Limited (LBL)

Lumbini Bank Limited is a national level commercial bank offering a wide range of banking solutions and services meticulously customized to the needs of the customers. Established in 1998, this is the first regional commercial bank in Nepal, which started its operation from Narayangath spreading its wings to further four more places at Hetauda, Butwal, Durbarmarg and Biratnagar.

Lumbini Bank Limited is highly committed to assure of the standard and excellence in the services it offers. Our team is guided towards obtaining new challenges and opportunities.

Backed by state-of-the-art technology and experienced professionals adept in modern banking management, we strive to make banking simple, fast and customer friendly. Just the way you like it.

Lumbini Bank Limited has restructured various products, as a part of an ongoing process, to cater to the retail segment. The newly structured products cover Personal Loan, Home Loan, Vehicle Loan, Mortgage Loan, Educational Loan, Time Loan etc

1.6.7 Kumari Bank Limited (KBL)

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,186,099,200.00 of which 70% is contributed from promoters and remaining from public.

1.6.8 Nepal SBI Bank Limited (SBI Bank)

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India(SBI), Employees Provident Fund(EPF)and Agricultural Development Bank Ltd.(ADBL)through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 351. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 131.76 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009.

Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public

1.6.9 Citizens Bank International Limited.(CTZBL)

Massive changes and developments have taken place during the past two decades in the financial sector. Amidst all these changes, for economic growth and development of New Nepal, Liberalization, Privatization and Globalization in this sector has given birth to the largest commercial bank, “Citizens Bank International Ltd”. The Bank is located at Sharada Sadan, Kamaladi, Kathmandu, the heart of financial sector of the country. It is promoted by eminent personalities/business and industrial houses and reputed individuals having high social standing. It is managed by a team of experienced bankers and professionals.

1.6.10 Standard Chartered Bank Nepal Limited

Standard chartered Bank Nepal Limited was established in 2043 B.S. with the name of Nepal Grindlays Bank Ltd. (NGBL) under the company Act 2021 B.S. It is managed by Australian and New eland banking group (ANZ). Nepal bank limited the first commercial bank in Nepal has 33.34% share the public has 16.66% and ANZ has 50% Equity composition. Now the Nepal Bank Limited sold out its share due to the restriction of BAFIO. The Bank operates the objectives of providing full range of quality service to both the business community and general people at large. The bank has many Branches and exchange counter in various parts of country. The branches with in the valley provided their service through additional counters and 24 hours service through ATM machine.

1.7 Limitation of the Study

As the study is being carried out in a partial fulfillment of the requirements for the Degree of Master of Business Studies, it possesses a number of limitations of its own kind. Some of the basic limitations of the study could be illustrated as follows:

1. Simple statistical technique followed by financial models has been used in the analysis.
2. Absence of required data concerned with commercial banks limits to detail study.
3. Due to the small sample size it may not fully represent Nepal as a whole.
4. The study has covered only the data of past five years.
5. The study lacks in time and other resources as well.

1.8 Plan of the Study:

This study is divided in 5 chapters. Prior to the body of the thesis several pages of preliminary materials such as title page viva voce- sheet, recommendation, acknowledgements, table of contents, list of figures list of tables, abbreviations used etc. have been presented.

Chapter one is the introduction that includes the background of the study brief description about Nepalese commercial banks. This chapter comprises of focus, significance, objectives of the study, statement of the problems, a brief description of sample banks and limitations of the study.

The second chapter is the review of literature. This chapter views the relevant previous studies made on the taxation. This chapter includes the theoretical review, policy review and review of previous studies.

The third chapter is the research methodology. This chapter includes the detail framework of the study, such as population and sample, variable, research design, data collection, presentation and analysis tools and technique etc.

The fourth chapter of this research is presentation and analysis of data. In this chapter, the primary and secondary data collected from different sources are resented in systematic format, such as tables, charts and figures. And these data have been analyzed using different statistical and financial tools. In addition to that, the major findings of the study are drawn out.

The last and the fifth chapter include summer, conclusion and recommendations. This chapter consists of summary of the major findings of this report and concludes the report with the major recommendations and suggestions to the Nepalese commercial banks, banking professionals and government. This study is expected to be a reference to the executives, students, researchers and other professionals in the field of banking management.

Chapter II

Review of literature

2.1 Concept of Income Tax

The term income is very difficult to define precisely and clearly. Different Imputed and accrued incomes create such difficulties in measurement. Income is to be defined as the best measure of ability in the sense of economic wellbeing of a person as well as a nation. It is the primary determinant of the level of living of any person. People generate income by rendering various types of services, selling goods and producing crops etc. Thus, income may be cash or kind received by a person for livelihood. Income is a payment received for doing work or services.

The term income is defined differently by different economists. Musgrave and Musgrave have taken the income as the accretion in the net wealth. R.M.Haig and Henry Simon who are renowned for defining the term income most acceptably view that income consists of the total of the increase in net wealth and consumption.¹

Economist used the term income for two purposes: Part of income is spent on consumption and part is saved. According to them following formula can be expressed:

$$Y = C + S$$

Where,
Y = Total Income
C = Consumption
S = Saving

But for the purpose of taxation the meaning and definition of income is somehow different from aforesaid definitions. According to Indian Income Tax Act, 1961, sec-2, income means profit and gains, dividend voluntary contributions received by charitable trust, value of any perquisite or profit in lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. similarly, sec-2 of Income tax Act, 1974, of Nepal has defined the income just like the Indian income Tax Act has defined. It defines income as “The cash or kind, which is received from agriculture, Industry, business profession or vocation, remuneration, house and land rent and other sources.”²

According to income tax Act, 1974 of Nepal the heads and sources of income for taxation purpose are five, which are as follows:³

- a) Agriculture
- b) Business, profession or Vocation
- c) Remuneration
- d) House and land Rent
- e) Other sources

Income tax act, 2002, is also not different in respect of defining the income. Although it has reduced the source of income as “ a person’s income from any employment, business or investment and the total of with this Act. As per this Act, the sources of income are: ”⁴

- a) Employment
- b) Business (Profession or Vocation)
- c) Investment

¹P.R Kandel,(2004), **Tax Laws And Tax Planning in Nepal**, Kathmandu, Buddha Academic Enterprises Pvt. Ltd., p 15)

²**Income Tax Act**, 1974, P.5

³Ibid.

⁴**Income Tax Act**, 2058 p.1

2.2 Evolution of Tax

The Great Britain is the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax as temporary until 1860. There after, since 1913 it was accepted as permanent tax. Thus income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1871, Austria and Canada had followed the Income tax in 1915 and 1917 respectively. After First World War, the income tax became an important source in revenue in most developed countries and had made appearance in a number of developing nations⁵.

Nepalese ancient tax system was based on Vedas, Smirities and puranas. Directives propounded by Manu, Yagnabalka, Chanakya etc. guided the taxation system. At that time the principle of collecting tax from the people was imposition of tax without harming the activities of the people.⁶

The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democratic political system was introduced. In 1952 (2008 B.S, magh 21) the finance minister in his budget speech declared the intention of government to levy an income tax.⁷

Attempts were made to introduce income tax in subsequent years, in 1954, an income tax with Rs 1000 basic allowance and progressive taxes ranging from 5 to 25 percent was proposed. Due to political instability, it could not be introduced until 1988.⁸

Finally, income tax was introduced in 1960. The first five years plan in 1956 (2013-2018 B.S). Thus the changing role of the government demanded more revenue and Nepal also felt to levy tax on income as a permanent source. As a result first finance ordinance in 1959 (2016 BS) to impose on business profit and remuneration. In 1960 (2017 BS) the first income tax act named "Business profits and Remuneration Tax Act, 2017" was introduced with the provisions of finance ordinance, 1959. This was the first income tax in Nepal and it has 22 sections. The marginal rate of taxation prescribed by this Act was twenty five percent. Since the income tax was imposed only on income from business (Profit) and remuneration. By the passes of time the Act could not cover all the sources of income. It was found narrow and vague and so was replaced by the Income Tax Act, 1962 (2019 BS) in 1962.

The second Income tax act, Income Tax Act 1962 (2019) was the extension of Business profit and remuneration tax Act 2017. It has 29 sections, and divided the heads of income into nine parts covering business, profession and occupation, remuneration house and land rent, cash or kind investment, agriculture, insurance business, agency business and other sources. This Act was amended in 1972. However, considering this Act incapable on fulfilling the needs of the changing time, it was replaced in 1974 (2031 BS) by another Act.

⁵Agrawal, G.R., (1980), **Resource Mobilization in Nepal**, p.113

⁶P R Kandel, (2005), op.cit. p. 5

⁷Ishwor Bhattarai, G.P. Koirala, Op.p.1.5.

⁸Ibid.p.1.6.

2.3 Concept of direct & indirect tax

2.3.1 Direct Taxes

If a person has to pay directly the tax liability to the government, such tax is known as direct tax. Tax liability of direct tax cannot be transferred to others and must be paid by the person to whom it is legally imposed. The impact of direct tax is limited with the taxpayer who is liable to pay such tax. Income tax, house and land tax, interest tax, vehicle tax, property tax and contract tax are the examples of direct tax.

Indirect tax is the tax that is collected from others by transferring the tax liability. It is levied on one person who does not bear it from own income. Collecting it from customers and adding it to the price of goods or services transfer the tax liability. So the government realized indirect tax from general public. Sales tax, entertainment tax, excise duty, custom duty, value added tax, hotel tax and passenger tax are the example of indirect taxes.

In Nepal, about 79% of total revenue was collected from tax revenue and rest 21% collected from non tax revenue. Among the tax revenue, 19.36% of tax revenue comes from direct source and 80.64% of tax revenue from indirect sources in average.

2.4 Concept of Corporate tax

Corporate bodies conduct their business with the profit-earning motive. Tax levied on corporate bodies under their corporate profit is known as corporate tax. Therefore, corporate tax is a tax levied on companies or corporate bodies in contrast to unincorporated enterprises.

A corporate body or company is an article person created by law. A company is a legal person just as a individual. It is separate and distinct from its individual members. A company like a nature person can do everything. It can conduct a lawful business and enter into contracts with others in its own name⁹. Corporate bodies conduct business and make profits. Tax levied on corporate profit is known as corporate tax. Therefore, corporate tax is a tax levied on companies' or corporate bodies in contrast to unincorporated enterprise. The history of this tax was started from 1909 in USA when 1 percent excise was levied on corporations i.e. companies on the ground of the privilege they enjoy. Since then corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in its initial period, increased vehemently later on after First World War (1914-1918) and again started down turn 1980s. Taxations of Corporate profit is so far the most common form of corporate taxation. Almost all countries of the world have adopted this system.¹⁰

Corporate tax was introduced in Nepal only in 1960, with the enactment of the "Business Profit and Remuneration Tax Act, 1960" for the first time. In the initial pr Act ice, it was not differentiated from personal income tax. All the taxpayers, person, companies and private firms were imposed at the same rate with progressive taxation and exemption limit prescribed by finance Act, 1960. The marginal tax rate prescribe by this Act was 25%. The exemption limit given to the companies same as the personal taxpayers was implemented in fiscal year 1965/66. Since then, income tax was imposed only on the income from Business profit and Remuneration.

⁹Juneja, C.M., Chawala, R.C. and Saksena, K.K., (1991), **Double Entry Book-Keeping**, p.68

¹⁰paudyal, K.B.(1997) **Corporate Tax Planning In Nepal**.p.25.

The same tax rate structure was designed for corporate income and other incomes for many years. In 1986/87. A flat rate corporate tax was introduced for government corporations and public limited corporations listed with the security exchange center corporate tax was extended to private limited companies in 1993/94 and partnership firm in 1995/96.¹¹

The corporate tax is based upon net income after various deductions and exclusions from gross income corporate body either claims not to have record or are beginning to maintain two sets of records, one for tax authorities and other for personal purpose since the tax is based upon gross income less certain deductions, if the amount is under stated the net taxable income becomes a type of guessing game.¹²

Compulsory self-tax assessment system for public and private limited companies was introduced by the finance ordinance 1992. The additional change was made for taxing corporate at flat rate to private companies was enacted from the fiscal year 1994/95. These changes abolish the discrimination between private and public companies.

The corporate tax rate prescribed by the Finance Act, 1960 was 25%. It was increased to 60% in fiscal year 1975/76 and again dropped to 50% in 1979/80 and once again tax rate was increased to 55% in fiscal year 1982/83. Again it was decreased to 40% and 30% in fiscal year 1991/92 and now prevailing corporate tax rate is 20% for special industry, 25% for general industry/company and 30% for banking business. No exemption limit is provided to corporate bodies.

2.5 Corporate Tax Base in Nepal

Corporate Tax is called income based or net profit basis when income is taken as the base of taxation, under the basis the computation rule of tax is adding up all the taxable incomes and deducting express incurred in earning the revenue or allowed expenses by income tax act. This is also known as profit based tax. However, due to some difficulties in finding out taxable income under this basis the economists are tax experts are in favour of replacing it with alternative of the cash flow base. It denotes taxing of net cash flow received from business activities without discriminating the income or capital.

In Nepal, corporations are using net income base for taxation. Under the current Income Tax Act, tax is levied on the total expected income of current year of a corporation. Total income falls mainly under two heads i. e. business and investment. Profit represents net income, i.e. Total revenue less total cost.

Until fiscal year 1997/98, income tax was assessed on the income of previous year. The concept of levying income tax on the current year's income was introduced in fiscal year 1998/99. Under this system taxpayers are required to pay income tax in three installments on the basis of latest tax returns or the estimated income of the current year whichever is higher. Initially income tax was assessed under the official assessment. In the fiscal year 1991/92, a self-assessment system was introduced for registered public limited companies and firms. It was also applied to industry trade and professional firms who had their accounts audited by recognized auditors. Income Tax Act, 2002 has made a provision of purely self- assessment system and tax officials will make only an amended assessment.¹³

¹¹ Rup Bahadur Khadka, (2001), **Income Tax in Nepal**, Kathmandu:, Ratna Pustak Bhandar p.5.

¹² K.B. Poudyal (1997), **Corporate Tax Planning in Nepal**, Pokhara: Sita Poudel Press, p.25.

¹³ S.K. Amatya, B.B. Pokharel, and R.K.Dahal (2004), op. Cit p.p. 15-16.

2.6 Tax Incentives in Nepal

The necessity for offering tax incentives is felt basically for two reasons, stretching the scope of tax beyond its revenue objective to achieve certain socio-economic ends and to mitigate the adverse impact of high taxation on corporate saving and investment activities.¹⁴

Tax incentives are concessions facilities and rebates granted to corporate bodies. These incentives reduce the tax burden of an organization. It may apply a partial or full exemption from one or a variety of taxes and special allowances for a certain period to motivation the new as well as existing organizations for balanced regional development, production and primary goods and to development the corporate bodies. It increases the habit of saving and encourages the investment by means of equity share purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

The most popular tax incentives provided to various types of activities in different countries of the world are tax holiday, investment allowance or tax credit, accelerated depreciation rate, tax rate reduction and carry forwarded losses. Tax holiday is the holiday from the tax for a certain period. Any industry which had granted such type to incentive needs not to pay tax for certain period from the commencement of its business activities. On the other hand, investment allowances and tax credit is the incentive provided for capital investment. It is granted in the first year of investment on assets. This type of incentive is beneficial for the large enterprise but not for small one. So it discriminate them. But it has some advantages such as it can be specific for a particular investment, it can focus on new investment etc. Accelerated depreciation is the other system of tax incentive that means the higher depreciation in the initial years and gradual decreased in later year on the fixed asset of an organization. It decreased the taxable income due to large amount of depreciation deduction. For this accelerated depreciation, sum of year digit (SYD) and double declining methods are used. This incentive provides more benefits to the big concerns only than to small concerns.

The fourth technique of providing incentive is tax reduction. In other words, it means the making the tax rate lower. This type of tax incentive is equitable to all type of corporations whether large or small, new or old, short life or long life, capital incentive or labour incentive or located in urban or rural areas. Its main defect is the reduction of government revenue. Another technique of tax incentive is set off and carry forwarded of losses. In this technique, the losses of the previous year's can be deducted from the subsequent year's profit. This facility of set off and carry forward of losses exists in many countries but the same varies in terms of scope, condition of time. Most of the countries allow to deduct losses or carry forward of losses for subsequent five years. In Nepal as per Income Tax Act, 1974, losses were allowed to be carried forward and set off in the following three years, which was only two years allowed by Income Tax Act, 1962. Now new Income Tax Act, 2002 has increased this period up to four years for general business and five years for bank and insurance.

¹⁴ Ibid, p.38

In some developing countries like, Philippines, Mexico etc. the incentive is mainly in the form of tax holiday. A combination of tax holiday with investment allowance and other rebate is also common in many countries. Foresaid tax incentives have always been the important parts of corporate tax system because they are important instruments in accelerating the pace of economic growth through mobilizing saving and investment. The type, size and magnitude vary according to the needs and aspirations of the people of different countries.¹⁵

Nepal has experienced four industrial enterprise acts brought to make incentive to the investment in the corporate sector. They are Industrial Enterprises Act, 1967, 1974, 1981 & 1992. The first Industrial Enterprises Act had granted ten years tax holiday for a new industries, Tax rebate up to 25% of tax liability. Similarly, Industrial Enterprises Act, 1974 provided investment allowance, depreciation facility to extension and modernization and up to 18 years tax holiday to different industries established in different parts of the country. Accordingly, Industrial Enterprises Act, 1981 had made tax relief provisions including up to twelve years tax holiday, income tax rebate up to 50% for exports, 15% investment allowance to additional investment and only 1% levy for import of machinery, spare parts and raw materials.

Tax holiday is granted to newly established industries considering such as level of capital investment, number of people employed, nature of the product and the use of local raw material under sec 15 of the Industrial Enterprises Act, 1992. The rate of tax holiday period is five to fourteen years depending on previously mentioned criteria.

Besides these, the Industrial Enterprises Act, 1992 has provided a number of facilities and concessions to the industries. They are listed below:-

- a. Income derived from such industries which are registered under co-operative act 2048 B.S is completely, Tax exempted. In addition, dividend received from such industries is tax free.
- b. 10% of gross profit can be deducted in case of expenses made in technology and product development and efficiency increased after industry operation.
- c. If any industry provides direct employment to six hundred and more than six hundred Nepalese citizens around the year, it will be, in addition to other facilities, granted an extra rebate of 10% of income tax for that year.
- d. The government will not impose any sales tax, excise duty and income tax on the cottage industries.
- e. An industry can deducted 5% of gross income for distribution extension, service promotion, advertisement, hospitality and similar expenses.
- f. 40% additional fixed assets (investment) can be deducted from net income in case, an industry diversified or increases its capacity by 25% or more or modernizes its technology or develops subsidiaries industries. This deduction is allowed at lump sum year or within the same year or within three years.
- g. No income tax will be levied on the profit earned through exports.
- h. Fruit base and fruit processing industries and cider wine industries with a fixed assets of 2500 thousand rupees and established in remote area shall be entitled to an excise duty and sales tax exemption for a period of 10 years.

¹⁵ Poudyal, K.B., op.cit., p.40.

- i. Any national priority constructing and operating road, bridge, flying bridge, tunnel, ropeway, an manufacturing, an operating truly bus and tram shall be granted or rebate 50% of the income tax for a period of 10 years. Other industries are granted or rebate of 50% of income tax for seven years.
- j. Industries donating up to 5% of its net income or Rs. One lakh to any institution. Which is acknowledge tax free institutions by Inland Revenue Department may get such amount deducted from its taxable income.
- k. No income tax is imposed on the dividend received from investment in an industry.
- l. Industry investing its money on process or equipment for the purpose of controlling industrial pollution or having minimum effect on environment may be permitted to deduct 50% of investment in computation of taxable income in same year or with three years and remaining is permitted to be capitalized. Later the finance act granted the deduction of 50% whole expenditure in two years equal intervals.
- m. No income tax will be imposed on the earning derived from agriculture except registered agriculture firms.
- n. Except for cigarette, bidi cigar, chewing tobacco, khaini industries and industries producing other goods of a similar nature utilizing tobacco as their basic raw material and industries producing alcohol or beer, saw mill, catechu industries and any other industries loosing 80% or more than 80% of indigenous raw material in its product and applying all its manpower from among Nepali citizens shall be granted a rebate at the rate of 10% of income tax.
- o. No industry will be imposed more than 20% tax on its income. The provision, however, is not applicable to the industries producing cigarette, bidi, sigar, chewing tobacco, khaini and other goods of similar nature utilizing tobacco and their basic raw material and those industries producing alcohol and beer.
- p. An industry can deducted the expenses spent for residence, life insurance, health facilities, education, training and long term benefits of labours and workers.

2.7 Element of income tax management

In the income tax management in Nepal, four elements are involved. They are very important in the management process of income tax system. They are performing their respective jobs for the fulfillment of desired goals in well manner. These four elements are described below:

a. Ministry of Finance (MOF):-

Nepal Government is the highest authority of the tax Management. The ministry of Finance (MOF), exercise the management function of tax administration by carrying out the functions such as planning, directing, coordinating and controlling of the government organizations related to taxation. Further more, the division departments' center and office under the MOF. Revenue investigation Administration and Revenue Administration Training center are also involved in the tax management of income tax. The revenue division of the ministry formulates tax policies and programmes of the government. The divisions coordinate the activities of all revenue authorities. The Revenue Administration Training Center

conducts training workshops and seminar for the officials ministry of Finance concerns with the total revenue and expenditure of the government, manage to borrow internal as well as external debts as demanded as budget.

b. Inland revenue Department (IRD):-

Inland Revenue Department (IRD) launches various plans, programs and policies related with the implementation of income tax management. It took over both tax and non-tax revenue. Tax management has become challenging and more complicated with the changing environment of tax system. Inland Revenue Department has taken the responsibility of management of income tax. Although it is the organization of taxation, it is not directly associated with assessment and collection of taxes. It manages personnel and implements various policies relating to income taxes and other taxes as well as non-tax revenue. It also organizes the structure of taxation, manages personnel, improves the system and controls the systems defectives and personnel as well. It constitutes law, policy, appeal, Audit, investigation and review, tax exemption and static section. This department is situated at Lazimpat, Kathmandu.

c. Parliament:-

No tax levied and collected except and accordance with law. Different types of Acts and supported laws are provided by parliament. The government can only impose any tax with sufficient legal support. Legal support is necessary to impose income tax too. Parliament is not directly associated with day to day operation of income tax management.

d. Inland Revenue Offices (IRO):-

Inland Revenue Offices are realized and directly performed the implementation program of income tax and other tax policies and programs. They maintain public relation, collect information, identify tax payers and assess their feedback on the basis of information to make corrective action for existing policies and Programme to the top-level management.

2.8 Some Special Provision for Banking Business

Income Tax Act, 2002 has some made special provision to banking and insurance business under section-59. For the purpose of this section banking business means a business that is approved to carryout banking trans Act ions carryout by financial institution as per the prevailing laws for bank or financial institution. The special provisions facilities, concessions and rebates provided by this Act are.¹⁶

2.8.1 Written off loan Loss

Loan loss of banks can be written off in compliance with NRB guidelines and it can be treated in the debit side of profit side of profit and loss amount of expenditure for carry bank of losses but it is not allowed if this amount has already deducted from income as a contingency fund.

2.8.2 Carry back of loss

The loss from banking business can be carried backward for five years. However, contingency fund is utilized to show as expenditure; the carry backward facility is not allowed.

¹⁶ Income Tax Act, 2002, sec. 59

2.8.3 Provision for Contingency Fund

As described section-59, the person running the banking business would be provided to at the most five percent of the contingency amount as expenditure. If such expenditure is shown bad debts cannot be shown in profit and loss amount as expenditure. If the amount in contingency fund is capitalized or dividend is distributed, it should be shown as income in the year of capitalization.

2.8.4 Interest suspense

According to direction of NRB to the banking business, no interest can be treated as income on the accrual basis. Interest Suspense amount should be opened if the interest is earned but not received in cash within one month. This type of income tax Act,2002 by issuing the Finance ordinance 2003.

2.9 Income tax Administration in Nepal

The body which implements the policy, rules & regulations of the government relating to taxation is tax administration. It comprises the organization, employees and the physical facilities provided to the employees. In relation to the running of a government, tax administration has a great importance. It is so because, the administration is a permanent government, it collects revenue required to run the government and the success or failure of a political party in government depends on the performance of the administration. Due to these importance of tax administration, it is said that tax administration is tax policy in developing country.

Income tax is administrated directly by the Inland Revenue department, Ministration of Finance and other administration such as customs administrations; revenue investigation administration and revenue administration and training centers are also involved in the income tax administration. The revenue division of this ministry of finance is responsible for formulating tax policy and setting up appropriate administration to implement tax policy. It co-ordinate the activities of revenue departments including Inland Revenue Department. Customs administration helps in income tax administration by collecting advance leakage made by officers and taxpayers for their mutual benefits. And revenue administration training center performs training, workshops and seminars for the tax officials. Tax administration has become challenging and more complicate with the changing environment of international tax system. Inland Revenue department has taken the responsibility of administration of Income tax. Tax administration was set as the tax directorate in 1959 for first time. The internal revenue department was established in 1961/1962 and the department of taxation was set up in 1963/1964. Tax officers were recruited under this department for the collection of tax revenue. In 1964 there were tax offices in six places i.e. Kathmandu, Biratnager, Nepalganj, Bhairahawa and janakpur. In Kathmandu there were two offices known as eastern office and western offices. The number of tax offices increased gradually. These offices were classified as zone and branch offices were converted in to tax offices.¹⁷

The success and failure of any tax policy depend upon the efficiency and effectiveness of the tax administration should be the efficient assessment, collection and enforcement of taxes legally due without undue cost and harassment to the government or taxpayer in term of money, time, inconvenience and mental worry.¹⁸

¹⁷ Khadka, Rup, op.cit.p.100.

¹⁸ Thapa, R.B.op.cit.p.28.

2.9.1 Functions of Income Tax Administration

The functions of tax administration can be broadly divided into two parts- basic functions and subsidiary functions. Major functions include the work of investigation and registration of tax payer, assessment of tax, collection of tax and auditing. The subsidiary function on the other hands covers internal management of the tax offices and the tax payer education.¹⁹

The functions of tax administration are briefly explained in brief:

A. Registration

The first work of tax administration is the registration of tax payers in the tax offices. Registration of the tax payers also includes the investigation too about taxpayer's activities. After registration a number is given to the taxpayers which is known as Permanent Account Number (PAN) or Taxpayer Identification Number (TIN)

B. Assessment

The second work of tax administration is assessing the tax. However, tax office is authorized to assess the tax only if the taxpayer does not obey the tax law. Tax office assesses the tax only if there is mistake in the assessment made by the taxpayer. In ordinary case, it is the duty of taxpayer to make his tax assessment. The assessment made by taxpayer himself is known as self-assessment.

C. Audit

The third work of tax administration is tax audit. Here, audit means, auditing the tax assessment from submitted by the taxpayer by the taxpayer. Tax audit can be of two types- prima facie audit and detail audit. Prima facie audit means the audit made at the time of submitting tax assessment form by the taxpayer. In this audit, the tax office examines only the mathematical errors etc. made by the taxpayers. The detail audit, on the other hand, covers site visit audit and the detail examination of the documents submitted by the taxpayer. This type of audit is made on sample basis.

D. Collection, Refund and Remission

The next work of tax office is the collection of tax amount. For this purpose the tax office can be use the banks also. If over collection is made from any taxpayer, the tax office should refund the amount. Sometimes, if it thinks that it is impossible to collect tax from certain taxpayers, the tax administration can sacrifice the due amount. Such sacrifice is called Tax Remission.

E. Taxpayer Service

The last but not least important work of the office is the taxpayer service i.e. taxpayer education and entertaining the enquiries of the taxpayer. While performing this duty, the tax administration should think that taxpayers are the customers of the tax office. He should be served so that he is motivated to come to tax office in future also.

¹⁹Kandel, P.R., *Tax Laws &Tax Planning In Nepal*, p.165

2.9.2 Methods of Income Tax Assessment

There are three methods for income tax assessment under Income Tax Act, 2058. These are Self Assessment, Jeopardy Assessment and Amended Assessment. Self Assessment is done by the assesses himself where as jeopardy and amended assessments are the assessments based on judgment of the department.²⁰

2.9.2.1 Self –Tax Assessment

In self –assessment, a tax payer himself assesses his tax liability. Income tax Act 2058 focuses on the self assessment system. Under this Act, every assessment will be treated as self-assessment. Where a person files a return of income for an income year, an assessment is treated as made on the due date for filing the return of the tax payable by the person for the year and in the amount shown in the return, and the amount of the tax still to be paid for the year being the amount shown in the return. Where a person fails to file a return of income for an income year then, until such time as return is filed , an assessment is treated as made on the due date for filing the return that the amount of tax payable by the person for the year is equal to the sum of any tax withheld from payments derived by the person during the year and any tax paid buy the person by installment for the year; and there is no tax payable on the assessment.²¹

2.9.2.2 Jeopardy Assessment

The section 100 of Income Tax Act, 2058 also makes provision for the jeopardy assessments under such special circumstances as when

- a) The person about bankrupt, is wound-up, or goes into liquidation.
- b) The person about to leave Nepal indefinitely.
- c) The person is otherwise about cease activity in Nepal or
- d) The Departments otherwise considers it appropriate.

Where an assessment is made under jeopardy assessment with respect to a full-income year, the assessed person will not file or return of income for the year. However with respect to part of an income-year, the assessed person is still required to file or return of income for the year. The Department is require to the grant an opportunity to produce proof, if any, in own favour while making a jeopardy assessment.²²

2.9.2.3 Amended Assessment

The section 101 of ITA, 2058 also empowers tax officials to make amended assessments to adjust the assessed person’s liability to tax in such manner as, according to the department’s best judgment, is consistent with the intention of this Act. The department may amend an assessment according to its best judgment for as many times as it thinks appropriate with in a period of four years.

In case the assessment is inaccurate by reason of fraud, the Department may amend an assessment at any time (the period of 4 years is not applicable). But the assessment must be done within one year on receipt of information. However, the Department may not amend an

²⁰ Ishwor Bhattarai, G.P. Koirala, Op.cit.p.254.

²¹ Ishwor Bhattarai, G.P. Koirala, Op.cit.p.255.

²² Ishwor Bhattarai, G.P. Koirala, Op.cit.p.254.

assessment if the assessment has been amended or reduced pursuant to an order of the Revenue Tribunal of a court of competent jurisdiction except where the order is reopened.

While amending an assessment, the department is required to grant an opportunity in writing to produce proof, if any, in own favour with respect to the assessment, specifying the basis that led to the amendment and giving a time limit of 15 days.²³

2.10 Problems in Tax Administration in Nepal

The estimated expenditure exceeds over expected revenue, that arises revenue gap and it needs to borrow foreign loans. The income tax is only justifiable to increase the resource mobilization in the nation internally. However, due to poor earning capacity of people it is difficult to raise the contribution ratio of income tax in the total revenue. On the other hand, most of people who are earning significant about are beyond the income tax net. This problem can be solved if we correct the problems seen in the tax administration gradually. The income tax system in Nepal has been facing many problems. Inefficiency of income tax administration is one of the main reasons. Tax administration is a complex and difficult technical matter. Even though forty-four year passed, the tax administration has same problems. These problems are explained in brief below.

2.10.1 Failure to Maintain Proper Accounts and Records

Accounts and financial statements of the taxpayers are the base of effective and efficient tax administration. The profit or surplus shown in the account is the base for computation of tax liability of taxpayer. A tax officer is supposed to assess income tax liability by cross verification in scrutiny and investigation of tax returns.

Most of taxpayers in Nepal do not maintain accounts in proper way for the income tax purpose. They show hesitation in submission of accounts and tax returns in the Inland Revenue Offices. ON the other hand, large number of private business entities submits false income statement for tax purpose even though they maintain accounts of their business transactions. They make two sets or accounts and hide the real statement. That is a reason why the income tax officers fail to find out the true and fair view of the financial state of affairs of taxpayers. There are many reasons, which encourage making false accounts for tax purpose. Some reasons are stated below.

- a. Ineffective use of sanctions: The ineffective use of sanctions provided in the law against those taxpayers who fail to comply with the accounting and reporting requirements of law has encouraged non-maintenance of accounts.
- b. Assessment by committee and best judgment: Income tax is assessed under different methods in Nepal viz. committee assessment, Best judgment assessment, account assessment and self-assessment system. Self-assessment system was started from fiscal year 1992/93 in practice. Mostly the committee assessment and best judgment assessment have been applied commonly. More than 60% of assessment of tax liabilities is made by committee method in Nepal. However, more than 12% of tax assessment is made by the best judgment system. The account method of assessment is applied in low percentage say below 8%. Thus mostly committee and best judgment methods are in use. Indeed most of

²³ Ishwor Bhattarai, G.P. Koirala, Op.cit.p.256.

taxpayers seem to prefer these methods because there is no limit as to the amount of income, which can be assessed under these methods. The tax officers also enjoy discretionary powers while making assessment under the best judgment methods. This method encourages both taxpayers as well as tax officers to make collusion between them for financial benefit. This increase dishonest taxpayers as well as corrupt tax officers. Thus tax assessment by committee or best judgment methods have been discouraging maintains of proper accounts by taxpayers that is harmful to the tax administration.

- c. Attitude of the tax officers: The attitude of the tax officers is responsible for the failure to maintain proper accounts and records. Generally, tax officer reject the account submitted by taxpayers on the plea that they are not acceptable. They are reluctant to verify the accounts in depth investigation. The reasons are : Some tax officers are lazy and most of tax officers have no competency of inspecting accounts because they are from other subject faculty. They also reject accounts for the collusion with taxpayers to mutual benefit. Anyway, this type of negative attitude of tax officers is not conducive to the development of the habit of maintaining account by the taxpayers.
- d. Lack of intermediaries: Professional accounts, tax lawyers and tax consultants are the intermediaries and they make valuable assistance in the maintenance of accounts. They provide professional services to the taxpayers for the consultation of tax provision and maintenance of accounts and record in proper way. However, such intermediaries have not received adequate encouragement and support from the tax administration.

2.10.2 Failure to locate New Taxpayers

Govind Ram Agrawal has pointed out the problems related to the location of new taxpayers in his book “Resource mobilization in Nepal” as “tax administration in Nepal lacks an up to date roll of existing as well as potential as tax payers.”²⁴ Tax administration set s\up target to collect income tax in certain percentage of GDP each year, and makes policy to extend the scope of taxation. But the target has not been fulfilled. The major problem is the location of new taxpayers in the case of non-resident and non-citizen persons who are really outside the income tax net. This is due to open border with India. Similarly, self-employed persons as professionals and skilled persons have also remained outside the effective react of income tax net. Broker, speculators, foreign goods dealers, suppliers in big hotels, tourist guides, insurance agents and persons representing international companies are the other potential taxpayers who are also remaining outsides the income tax net. Administration deficiency, poor tax payers morality and compliance about the income tax payment are the major responsible factors for problems of failures to locate the new taxpayers.

2.10.3 Collection problems.

The main measurable factor for performance of tax administration is collection of tax revenue. From this point of view, it is seem that performance of tax administration is not satisfactory because of low collection of tax. Not with standing, the income tax act has prescribe stiff fines and penalties for non– payment of tax; the collection situation has been continue from the beginnings of income tax administration due to various reasons which are given below.

²⁴ Agrawal, G.R., op.cit.p.109.

- a. Undue delay in assessment: the traditional habits of undue delay in assessment has been serious obstacle in the collection revenue in Nepal. There are many income statements in the inland revenues officers remaining to assess since 4 to 5 years.
- b. Non Compliance by Tax Officers: Many taxpayers do not submit or pay income tax in due date. Reluctance to use fines and penalties encourage them keeping a defaulting in payment of tax.
- c. Change the Taxpayer's Identity: The identities of firms and their proprietors have change frequently in Nepal. This has been constrained in collection of taxes. Some dishonest taxpayers change their business names and appear with newly register firms. This is also reasons for collection delinquency.
- d. Weakness in making Fines and Penalties: Although the income tax act has made provision of stiff fine and penalties for non – payment of tax. Inland revenue officers have been reluctant in making fines and penalties to them who do not submit or pay income tax in due date.
- e. Lengthy Procedure in Payments: There are lengthy procedures of completing work in all the government offices. Some reasons exist in the payment of income tax. Taxpayers should deposit tax amount in NRB by filing 5 vouchers. This is very rigorous to the taxpayers and it has adversely, affected in revenue collection.
- f. Undue Delay in Settlement of Appeals: Appeals filled by taxpayers are not settled in time in Nepal. This freezes the tax amount in a deposit account.

Besides aforesaid reasons of collection problems, some others are listed below.

- i. Lack of collection responsibility.
- ii. Untimely deposit of tax collection at source.
- iii. Defective accounting system in inland revenue offices
- iv. Failure of public sector enterprises to pay the taxes.
- v. Tax holiday granted to new industries.

2.10.4 Assessment Delays

Tax assessment is the Computation of taxable income and tax liabilities of taxpayers for certain periods by application of governing rates. Assessment procedures start with the submission of tax returns. It is scrutinized, verified and audited for checking accuracy and reliability of contained information about income and expenditure. Assessment of tax liabilities is very time consuming in Nepal. This is a serious problems in the tax administration on Nepal. The major reasons for assessment delays are listed below.

- a. Defective assessment procedure.
- b. Delay in filing of income tax returns.
- c. Non maintenance of accounts by taxpayers.
- d. Poor recording and filing system in Inland Revenue department.
- e. Unclear tax provisions.
- f. Irregularities and negligence of tax personnel.

These reasons all are equally responsible for assessment delay in tax administration.

2.10.5 Poor Taxpaying Habit of People

Traditionally, Nepalese People have no consciousness of income tax. They have been paying indirect tax and land tax without hesitation because of unfeeling of payment. Many people still perceive that income tax is a burden and an unnecessary payment. They do not feel that the payment of income tax is the contribution to the nation for development. Voluntary compliance the corner stone of effective tax administration is poor in Nepal. Most of people who earn considerable amounts hide the income and do not pay the tax.

In the developed countries, people involved in voluntary compliance for tax payment. They feel that not payment of income tax is a social crime. But in developing countries like Nepal, tax liability is hidden and this type of practice is taken as a brilliant work. On the other hand, the government is trying to extract compulsory payment out of income of taxpayers through income tax law. The contribution of income tax to national receipt is reactively low in the developing countries in comparison with developed countries. To increase the contribution of income tax to national revenue for the economic and socio development taxpayers need to be persuaded and influenced to meet their tax obligations in a co-operative spirit. This requires integrated programmes' and taxpayer education. However, lack of education of taxation to the taxpayers has been increasing non-voluntary compliance in tax. On the other hand, tax administration experts think that any taxpayers are compelled to pay income tax by the law. This is not correct thought because habits of people need to be improved through good education system rather than by making force. The major responsible factors that make poor tax paying habits of people in Nepal can be listed as follows:

- a. Negative attitude of tax personnel.
- b. Vague and complicated laws of taxation.
- c. Lengthy assessment procedure.
- d. Weakness in enforcement of fines and penalties.
- e. Lack of research of tax matters.
- f. Lack of taxpayer's education.

2.10.6 Tax Evasion and Avoidance

Both tax evasion and avoidance are major causes to make low income tax collection. Thus, these practices are the major problems of income tax administration. Rich people and business persons do such practices. They are advised by corrupt tax personnel and tax consultant to evade or avoidance taxes. Evasion and avoidance of tax eliminate or minimize the tax liability of taxpayers and it affects in tax collection negatively. Hence, tax revenue of government becomes less. From this point of view, both are same but they are different in legal definition.

Tax evasion refers to the reduction or elimination of tax liability to hide or make less tax liability culminating in the violation of the provision of the laws. It implies manipulation and includes activities of deceit, misrepresentation of facts, concealment, falsification of accounts and downright fraud made by taxpayer, consciously evade tax payment due. Thus, tax evasion is illegal and immoral attempt. It may arise from weak enforcement of

punishment to non-payment of tax legally due, taxpayer's immorality in paying income tax and inadequate tools of tax administration. Evasion practice is increased or encourage by some reasons that are listed below.

- a. Corruption by tax officials: Habit of making collusion with tax payers for the mutual benefit of tax officials rather than national receipts have been increasing tax evasion practice in Nepal.
- b. Illegal business activities: Such business activities are not assess of tax personnel, which are engaging in illegal business activities. The businesspersons, who are conducting illegal business, do not also present the facts and information about their business. They always evade tax payments.
- c. Reluctance of taxpayer to maintain accounts: Most of the taxpayers in Nepal do not maintain accounts of their business activities in the accepted form. Tax officers also discourage to maintain accounts because they use mostly best judgment and committee assessment methods in tax assessment. Thus tax evasion is made easily.
- d. Ineffective use of fines and penalties: tax officials are generally, reluctant to impose fines and penalties for non-payment of taxes in Nepal. This leads to increase the tax evasion rate.
- e. Poor development of corporate sector: It is obvious that the growth rate of corporations in the private sector is minimal. Private organizations in operations are also family owned and managed. They also do not maintain accounts in proper way. As a result, evasion is easily conducted.
- f. Difficulties in locating taxpayers: Tax administration has been unable to record up to date information of taxpayers that is why; tax evasion practice cannot be detected in Nepal. Most of the professionals, traders engaging in foreign trade and skilled persons are out of tax net.

Besides these causes, other are also responsible are equally in tax evasion in Nepal as

- i) Higher marginal tax rates.
- ii) Inadequate auditing and investigation.
- iii) Lack of support of public.
- iv) Poor development of intermediaries.

Tax avoidance: Other device for tax reduction is tax avoidance. It is a systematic tax planning without country to legal aspect. It is not illegal practice even though it reduces the taxable incomes. A taxpayer is entitled to so arrange his financial affair to make the maximum advantage of the law and its weakness to reduce or prevent his tax liability. Hence, tax avoidance is non as the skillful and brilliant work of taxpayer in reduction or prevention of tax liability through legal means. It means making goods use of legal loopholes and taking advantages of the means allowed by the law or at least non country to law.

2.11. Review of other studies in taxation

Mr. Shiva Narayan Shahu presented a thesis report in 1995 entitled “Contribution of Income Tax in National Revenue of Nepal”. According to his record only 0.35% of total population came under the categories of taxpayers in Nepal during the period of his research work. He showed that the contribution of income tax to total tax revenue and total revenue was 9.92% and 7.94% respectively. During the study period the trend of income tax collection was in increasing order except for the fiscal year 1990/91 and 1991/92. He also showed that the income tax revenue was in forth in the Nepalese Tax revenue structure.

In 1994, Mr. Rup Bahadur Khadka had published a book named “Nepalese Taxation Path for Reform”. He had described Nepalese Economic Policy, CAT as a long term tax source (revenue source) for Nepal, income tax from a rough to refined system, property tax as the main source of internal revenue, improving tax administration, strategy for reform and so on. He had presented the composition of tax revenue from the Fiscal year 1950/51 to 1991/92.

About the income tax he had described the introduction, development, existing structure, main problems, and possible directions of reform. His book was presented as an analytical study of income tax. He had identified the major problems of income tax like narrow coverage unscientific tax assessment deviation from basic principle of income taxation, defectiveness for the perspectives of international taxation. He had also recommended the possible direction for reform, extension of coverage improvement in tax assessment, use of presumptive method, extension of withholding tax, inflation adjustment, introduction of current year payment basis and tax treaties with major trading countries of Nepal.

He had also identified the major problems associated with Nepalese tax administration, which were weak administration, inadequate training to tax officers, imbalance and inadequate organizational pattern, pre-dominance of low-level non-technical posts, inadequate physical and other facilities debatable scope of revenue investigation department, lack of adequate information system and lack of coherent tax policy. He had suggested to administrative reform to expansion, develop and integrated information system and research on taxation.

His book was very useful to gain various knowledge about income tax, But he had not presented any numerical illustrations and legal provisions relations to income tax. His book was more analytical rather than descriptive.

Dr. Govinda Ram Agrawal presented the research report entitled “Resource Mobilization for Development: The reform of income tax in Nepal” which was published by the CEDA Kathmandu in July, 1978. This research work was the first comprehensive study on the income tax in Nepal. In the research work, he analyzed various aspects of income tax system of Nepal such as role of income tax, legal aspect of income tax and administration aspect of taxation in Nepal. He showed the causes of problems facing by the tax authorities and the tax administration in his report. As per his study, the main causes of administrative problems were undue delay in tax assessment, failure to maintain proper account by taxpayer,

failure to locate new taxpayers, failure to maintain proper record by tax officers, unfriendly behavior of tax officials to the tax payers, assessment under the best judgment basic etc. He also showed the main reasons of assessment delays in Nepal. As mentioned by him delays in filling of returns of income, delay in settlement of appeal defective assessment procedure, lack of proper taxpayer information and failure to maintain the proper accounts and records by taxpayer/tax offices. He also found the buoyancy of income tax with respect to GDP for the period 1967/68 to 1975/76 and elasticity of income tax. He showed about 2.18 buoyancy and 2.01 elasticity of income tax.

In 1993, Mr. Ram Bahadur Thapa had presented a dissertation named , “Income Tax Assessment Procedure in Nepal, an Analytical Study” T.U. This study was basically concentrated on income assessment procedure. His findings about the problems of income tax assessment procedure were adhocism in tax assessment, undue delay in tax assessment and lack of adequate accounting skills, which are considerable at present. He had conducted an opinion survey of income tax assessment procedure. He had taken 13 people as sample. About the exemption limit, 8 were negative attitude and 9 were indifference about the exemption limit. Out of them, who gave the negative response, had suggested adjusting the exemption limit according to the inflation of the country. He also had suggested giving tax holiday to new industries as investment allowance. He also had suggested to tax the agricultural income. His topic was about income tax assessment procedure but he had described only about the income tax assessment method and fine, fee and penalties.

The other book named “Income Tax System in Nepal” written by Narayan Raj Tiwari published in 1978 described the income tax in general. This book consisted the historical background of income tax in Nepal. This book therefore was useful to understand the theoretical aspect of income tax law only because it failed to give the fact about the role and numerical information of income tax in Nepal in an analytical way.

Mr. Bamsidar Ghimire had analyzed the “Principle of Direct Tax and Provision of Direct tax.” He had described the classification of tax, relation of capital and income, base of income or expenditure tax, base of tax in Nepal, procedure of computing income, weakness of traditional accounting system, classification of tax rate index, index of income tax in Nepal contribution of income tax to national revenue, errors of past provisions, briefication of tax improvements, some steps of administrative improvement etc. He found that income tax was only 7% of total revenue that was very low as compare to neighboring countries. For this , he had identified the following causes no taxation agriculture income, narrow base of income of retail business, high exemption limit on remuneration income, etc. He had also identified some errors of provisions relating to income tax. They were progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holidays and rebate, provisos of low additional fee as compare to market interst rate, deduction given to record keeping tax payers and timely paying taxpayers had not played an effective role, etc. He had accounted the improvements made or income tax like, expansion of corporate tax on private limited company by 5% on flat rate, maximum 40% rate of individual income tax, provision of tax collection at sourced, provision of self tax assessment, increase in additional

fee to remove tax evasion, etc. He also accounted the some steps of administrative improvement. They were provision of income assessment committee, flat rate of tax to small taxpayers, establishment of tax offices etc.

Revenue consultation committee of Ministry of Finance had published a report 2001. This committee had studied the overall taxation situation of Nepal in depth. This report had suggested to widen the income tax base by including all kinds of taxpayers and income. It had also suggested to find out the taxpayers and income. It had also suggested to find out the taxpayers of new sector. For this, the report suggested to make the act more transparent and clear on order to attract foreign and domestic investors. For income taxation self-assessment was fully recommended. The report had suggested to increase exemption limit and adjustment of exemption limit according to the purchasing power and inflation. The report had certified Rs. 55,000 for an individual and Rs. 75,000 for a couple and family as exemption limit. This report had suggested to implement account based VAT more effectively. For small taxpayers having up to Rs. 2 million, tax collection should be used on the basis of their sales and purchase description.

In 1997, Karna Bir Poudyal Khetry submitted a Ph.d. thesis entitled “ Corporate Tax Planning in Nepal”. This thesis report was aimed to examine the implication of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He found that the majority (90%) of the companies (sample size of study) considered tax factors while selecting the line of business. He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets and corporate tax was (+0.75) in small companies and (+0.12) in medium size companies. As against this, in large companies, there was a negative correlation (-0.2), which showed that increase in fixed assets in large companies resulted in decrease in the corporate tax. He addressed that the tax planning should be considered while making corporate planning and so companies should net up separate tax section to get maximum benefit of provisions provided by tax law. However, ta assessment under the best judgment blocked the application of tax planning in corporate planning. He recommended that tax incentives should be given to know-industrial companies too, and tax rate should be differentiated for resident and non-resident companies.

In 2004, Ms. Bashundhara Acharya had presented a thesis named, “ A Comparative Analysis of Income Tax from Joint Venture and non joint venture commercial Banks to Total Revenue”, TU. From the study following conclusion had been drawn out.

- More than three fourth portion of Nepalese government revenue is collected from tax sources and only about one fourth portion is collected from non-tax sources.
- Direct tax is collected 17.08% of total revenue in average per year and it contributes average 21.81% amount to total revenue.
- From the income tax structure analysis, it is noted that Nepalese income tax structure is a composition of corporate income tax, individual income tax, house and compound tax and interest tax. Corporate tax contributes more than 50% amount to total income tax per year. It is become a highest contributing source of income tax revenue.

- Corporate tax occupies a considerable portion of total revenue. In average 8.83% of total revenue is collected from corporate taxes.
- Corporate tax collection from each sector will be maximized by providing additional facilities and incentives to the commercial banking sector. Rate of income tax should be differentiated according to the nature of business. Problems facing by CBs while paying corporate tax are vague provision of tax laws and order of tax assessment by tax authorities. To collect more government revenue, taxpayers should be motivated to pay tax on their income. Self-tax assessment procedure is suitable to motivate taxpayers. Persons are conscious about tax planning and they pay tax by hoping that tax amount which is paid by them through their income should be utilized in a better job.

In 2006 **Mr. Achyut Adhikari** had presented a thesis named, "Contribution of income tax and value added tax on total Revenue in Nepal", T.U. From the study he has found that the total tax revenue of Nepal is the composition of direct tax revenue and indirect tax revenue. There is always a dominant role of indirect tax revenue in the total tax revenue. Income tax and value added tax can be taken as a better source of government revenue to develop the economic condition of Nepal. Due to poor investment, less productivity and less income generation activities taxable amount is not increasing in Nepal. So, income –based tax has a minimum role in the tax structure or the contribution of direct tax in the total tax revenue is not satisfactory. The contribution of custom duties to indirect tax is in increasing trend. In fiscal year 2002/03 it has contributed 14236.4 million. VAT and income tax contributed 23.94% and 1.26% in fiscal year 2002/03 respectively.

In 2007, **Ms. Bikranta Koirala** had presented a thesis named, "Contribution of income tax collection from commercial banks to total revenue in Nepal", T.U. From this study he has found that about 77% of total revenue comes from tax revenue and rest 23% of total revenue comes from non-tax revenue in fiscal year 2005/06 and 8.99% of average contribution of corporate tax to total revenue. Among the sampled commercial banks, income tax contribution made by NABIL is higher and it has lowest CV too, which indicates that the corporate tax payment of NABIL was very close to average payment. The ratio of corporate tax contribution from sampled CBs to GDP was remained in between 0.78% to 1.52%. From the analysis of tax payer corporate bodies it is found that no of private corporate bodies are more than public Ltd. Companies. From the income tax structure analysis, it is seen that Nepalese income tax structure is a composition of corporate income tax, individual income tax, house and compound tax and interest tax. From the analysis of ratio of corporate tax to total revenue it is depicted that corporate tax occupies a significant portion of total revenue. In average 9.03% of total revenue is collected from corporate taxes.

Chapter III

Research Methodology

Research methodology is a systematic way to find out the probable solution. It is a method used to meet the specified objectives. It refers to the various sequential to be adopted by a researcher in studying the problem with certain objectives in view¹. Thus the overall study methods are presented in this chapter. This chapter contains the research design, variables, sample size, sample selection procedure, data collection and processing techniques.

3.1 Research Design

The research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance². This research study is concerned with past phenomena both numerical as well as opinions. This study is both descriptive and analytical. The collected data and information are described and analyzed by using simple ratio and some statistical tools. To identify the quantitative factors affecting corporate tax, descriptive and analytical research design is adopted with a non descriptive as well as analytical research design.

3.2 Variable

Variable are the symbols to which numerical or values are assigned³. So, the variables are taken on values. This research intends to identify that vary the income tax payment capacity of joint venture and non-joint venture commercial banks in Nepal. Thus, corporate tax is a variable that is affected by many other variables. The entire factors that affect the income tax collection from commercial banks are high level of non-performing assets (NPA), rule and regulations of NRB, policy govern by IRD, etc. these all factors are the independent variable where as income tax is a depended variable.

3.3 Population and sample

In general, the population refers to the organization of the same nature on its services and products. This research study intends to the factors that affect the income tax collection from commercial banks in Nepal. So, the population of the study is all commercial banks in Nepal.

The sample of the commercial banks under study is as follows:

1. Nabil Bank Limited
2. Standard Chartered Bank Nepal Limited
3. Nepal SBI Bank Limited
4. Everest Bank Limited
5. Himalayan Bank Limited
6. Bank of Kathmandu
7. Lumbini Bank Limited
8. Nepal Industrial and Commercial Bank Limited
9. Citizens Bank International Limited
10. Kumari Bank Limited

¹ C.R. Kothari (1994), **Research Methodology; Methods and Techniques**, New Delhi; Vikash Publications,p.19

² F.N. Kerlinger (2002), **Foundations of Behavioural Research**, New Delhi; Surjeet Publication,p-300.

³ibid.

The sample is taken on the basis of quota as well as convenience sampling from two different types of banks i.e. joint venture banks and pure Nepalese invested banks on the basis of investment point of view.

For the analysis of primary data, research questionnaire is prepared and opinion is collect by filling questionnaire under the direct supervision of the researcher. Then, in order to meet the research objectives. 102 banking professionals and tax experts opinion has been collected. The sample respondents are taken by assuming that it represents all population within the targeted group.

3.4 Nature and Sources of Data

This research study is based on secondary data as well as primary data. Secondary data are used to analyze the simple ratios and trend values. The primary data are used to analyze the qualitative factors affecting income tax collection from Nepalese commercial banks. In relation with corporate tax to other variables described in Annex- II is analyzed by using primary data, collected by filling questionnaire with the respondents. The respondents of primary data are tax experts, tax officials, tax executives and banking professionals. The opinions, experiences and thoughts of practitioners play a significant role to analyze the income tax collection from commercial banks in Nepal.

Source of secondary data are AGM reports of commercial banks annual reports of IRD, quarterly economic bulletin of NRB, websites of IRD, NRB and CBs, bulletins and publications of authorities, researcher, journals, unpublished thesis report, news papers etc.

3.5 Data Collection Procedure

This research study consists of both primary as well as secondary data. Since the nature of these primary and secondary data is different, collection procedure is also varies. The source and data collection procedure is explained below:

3.5.1 Secondary Data

To collect the secondary data, published materials are collected from various spots. Books published by different authors, unpublished thesis reports, journals, magazines, website, annual report of IRD, AGM report of commercial banks bulletins of NRB, economic survey and budget speech of various year are taken as main sources. To collect these secondary data, the researcher has visited NCC campus library, NCC online Library, T.U. central library, SEBON library, and NRB library.

3.5.2 Primary Data

Primary data are collected though scheduled questionnaire (Appendix – III), opinion survey, observation and the personal meeting with the learners and practioneers of CBs, obtained during the personal meeting with the respondents directly. Opinions obtained during the personal meeting with the respondents have been incorporated in this research study which is not included in to the scheduled questionnaire.

3.6. Presentation and Analysis of Data

The collected data (Both from primary and secondary sources) are tabulated and presented to make those data clear and more informative. Such data have been presented in figure like bar diagram, trend line and pie-chart, whichever is relevant to explain the data effectively, on the basis of the nature of data. After presenting, these data are analyzed by using various statistical and mathematical tools and techniques.

3.7 Statistical Tools

The primary and secondary data collected from various sources lead to the logical conclusion, only if the appropriate tools and technique are to analyze them. To analyze collected data some statistical tools are used. Statistical tools are the instruments to analyze the data. In statistical, there are numerous statistical tools to analyze the data of various nature. for making analysis and interpretation of collected data from primary source as well as secondary sources, table charts and diagrams are used along with simple percentage as demanded by subject matters. The following statistical tools are used to analyze these data.

3.7.1 Mean (Average)

The average is a simple value related from a group of values, which is supposed to stand for whole group of which it is a part, a typical all the values in the group.⁴ There are various types of average. The most popular and widely used measure representing the entire data one value is AM. The value of AM is obtained by adding together all the items and dividing the sum by the member of observations.

Mathematically⁵ Arithmetic mean is given by,

$$\bar{X} = \frac{\sum x}{n}$$

Where,

\bar{X} = Arithmetic mean
 $\sum x$ = Sum of all the values of variable
n = No. of observations

3.7.2 Standard Deviation

The standard deviation measure the absolute dispersion. Greater the standard deviation, greater will be the magnitude of the deviation of values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice verse.

Mathematically, ⁶ Standard Deviation (σ) = $\sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$

3.7.3 Co- efficient of Variation

The standard deviation is absolute measure of dispersion, where as the C.V. is a relative measure of dispersion. To compare the variability between two or more series C.V is more appropriate statistical tool.

Mathematically, ⁷ Coefficient of variation (C.V) = $\frac{\sigma}{\bar{x}} \times 100$

⁴S.p.Gupta (1990), **Statistical Methods**, New Delhi: Sultan Chand and Sons Publication, p.7.2.

⁵ S.C.Gupta (1992), **Fundamental of Statistics**, Bombay: Himalayan Publishing House, p. 238.

⁶ibid,p.380

⁷ Ibid

Chapter IV

Presentation and Analysis of data

4.1 Presentation and Analysis of secondary Data

This chapter includes the presentation and analysis of secondary data. It is the main analytical part of this research work.

4.1.1 Structure of Nepalese Government Revenue

Every government requires sufficient revenue to launch development programmes, handle daily administration, maintain peace & security and launch many other public welfare programmes. The government collects the required revenue from different sources. The principle sources of Nepalese government revenue are classified into two sources, namely tax revenue and non-tax revenues. Revenues collected by the government from various sources are also known as national revenue, national receipts and public revenue. The revenues are collected from different taxpayers and spent for the welfare of all people.

The Nepalese government revenue structure is a composition of tax and non-tax revenues. Tax revenue includes direct taxes as well as indirect taxes.

Direct tax includes income tax, house and land registration fees, property tax and other miscellaneous direct taxes, which are directly paid by the persons to whom they are legally imposed. Similarly, indirect tax includes customs, tariff, and value added tax, excise duties, vehicle tax and other miscellaneous indirect taxes. Non-tax revenue is part of government revenue, which is not related to tax, It includes various receipts from government entities such as duties and fees, fines and forfeiture, dividend, interest, royalty ,sale of government properties, principal repayments and other sundry receipts.

Customs duties are realized from exports, imports, Indian excise refunds, agricultural reforms duties and other miscellaneous receipts are included into the indirect tax revenues. Value added tax includes indirect tax revenues and it is imposed on production, imports, selling, distribution and other services. Excise duty is an indirect tax that is realized from the business of cigarettes, biddies, liquor, beer, other industrial production and excise on imports.

Direct tax is the tax which is payable by the person to whom it is legally imposed Income tax. Corporate tax and property tax are the example of direct taxes. Income tax is a direct tax that includes corporate income tax , remuneration income tax, investment income tax and on other incomes. Income taxes directly imposed on the gain or net profit of individuals and organizations. Income tax is also a composition of tax on profit or income of public enterprises, semi-public enterprises, private corporate bodies and remuneration of individuals. The structure of government revenue in Nepal is presented in table 4.1.1

Table 4.1.1

Structure of Government revenue (rupees in million)

Fiscal year	2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Customs	15564.8	25.72	15701.5	22.39	15343.7	21.23	16707.60	19.05	21062.5	19.57
Excise	6226.72	10.29	6446.3	9.19	6507.6	9.0	9343.2	10.65	11189.58	10.4
Sale tax/VAT	14478.9	23.94	18895.8	26.95	21610.7	29.9	26095.6	29.75	29815.7	27.7
Other indirect taxes	237.09	0.39	806.1	1.15	847.6	1.17	995.0	1.13	1069.21	.99
Land tax and registration	1697.48	2.81	1799.2	2.57	2181.1	3.02	2253.5	2.57	2940.74	2.74
Income tax with other direct taxes	9978.3	16.50	10456.0	14.91	10939.4	15.13	15731.8	17.94	19077.81	17.72
Total tax Revenue(A)	48173.3	79.65	54104.9	77.13	57430.4	79.45	71126.7	81.09	85155.54	79.12
Non-tax Revenue(B)	12307.3	20.35	16017.9	22.97	14851.6	20.55	16585.5	18.91	22467.04	20.88
Total Govt. revenue(A+B))	60480.6	100	70122.8	100	72282	100	87712.2	100	107622.58	100

Sources:

- i. Annual Report of IRD (2003/04 to 2007/08).
- ii. Economic report (2007/08), Nepal Rastra Bank.
- iii. Economic survey(2003/04 to2007/08),Ministry of Finance

Table 4.1.1 shows the composition of Nepalese government revenue from2003/04 to the fiscal year 2007/08. In the fiscal year 2003/04, the share of custom duty to the total government revenue was 25.75%.custom duty had taken highest ratio of government revenue at that time. In the fiscal year 2004/05 it was decrease to 22.39% .the trend of realization of custom duty is not so volatile from beginning to till now but it is in decreasing trend .The percentage of custom duty for the fiscal year2005/06 and 2006/07 is 21.23 and 19.05 respectively. But in fiscal year 2007/08 it is increased to 19.75% which is 0 .70% higher than fiscal year 2006/07.

Excise is also a source of government revenue. In the fiscal year 2003/04, the share of excise to the total government revenue was 10.29% and it was decrease to 9.19 in the fiscal year 2004/05.In fiscal year 2005/06 the contribution of excise in the total revenue of government of Nepal was decrease by 0.19%.the percentage of excise for the fiscal year2006/07 and 2007/08 are 10.65% and 10.4% respectively. So it is known that the realization of excise duty is fluctuated.

The value added tax, previously called as a sales tax has been slightly fluctuating over the study period. In fiscal year 2003/04, VAT (sales tax) has contributed 23.94% to the total revenue of Nepalese government. It had taken second position in beginning but now a days it take first position in the contribution in total revenue of government. The percentage of VAT for fiscal year 2004/05 and 2005/06 are 26.9 and 29.9 respectively. After the period the trend was decreased. In fiscal year 2006/07 it was decreased by .15% and 2.05% in 2007/08.So it is shown that the trend was decreasing.

Land tax and registration is also a source of government revenue which is a direct tax. It includes land tax and land registration fees. Land tax and registration fees have also been volatile over the study period. The share of this tax was 2.81% in the fiscal year 2003/04, which was decreased to 2.57% in fiscal year 2004/05 and it was increase in next fiscal year by 0.45%. The contribution of sales tax in the total revenue of government are 2.57 and 2.74% for the fiscal year 2006/07 and 2007/08 respectively, so it is going to the increasing trend for next fiscal year.

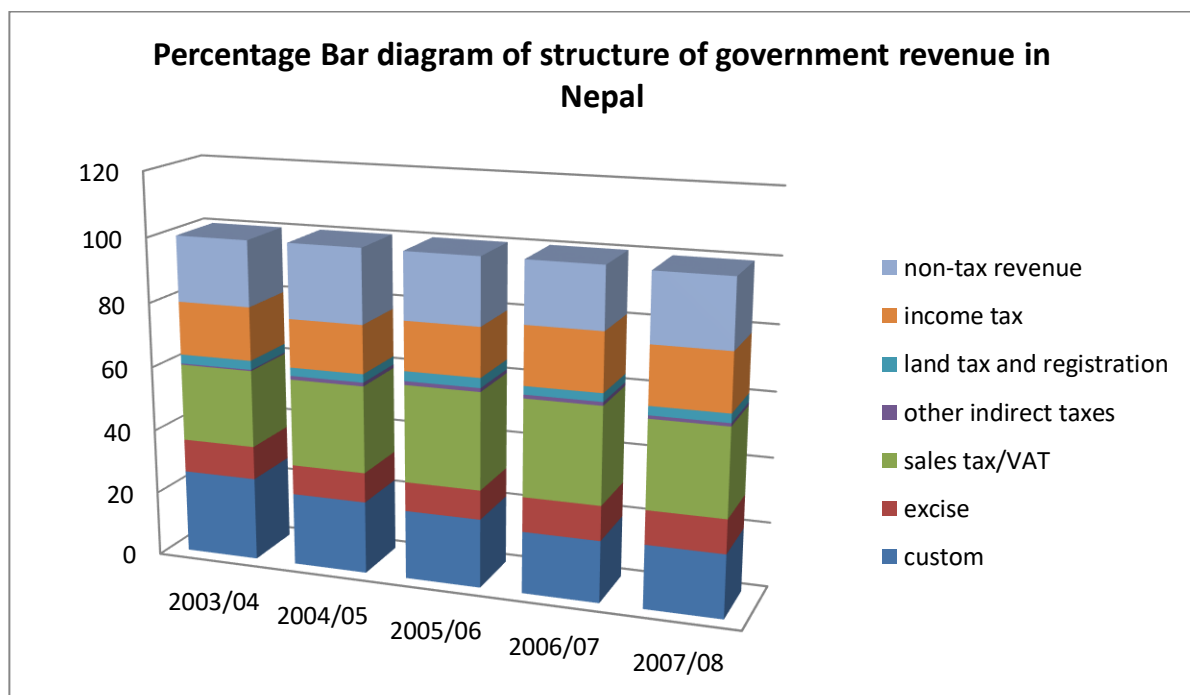
The income tax is also a major source of revenue of the government. The share of income tax to total government revenue in fiscal year 2003/04 is 16.5% which is decrease by 1.6% in the fiscal year 2004/05. After this period the contribution of income tax is increase for two fiscal year. The contribution of income tax to total revenue to the government is 15.13 and 17.94 for the fiscal year 2005/06 and 2006/07 respectively. In fiscal year 2007/08 the share of income tax was slightly decrease.

The share of indirect taxes to total revenue of Nepalese government had increase for first three fiscal year started from F.Y. 2003/04 to 2005/06. The share of indirect taxes to the government revenue in fiscal year 2003/04 was 0.39 which was increase to 1.15% and 1.17% in fiscal year 2004/05 and 2005/06 respectively. The tax realization of indirect taxes in the fiscal year 2006/07 was 1.13% and it was decrease by .14% in the fiscal year 2007/08.

In fiscal year 2003/04, 79.65% of total revenue was collected from various sources of tax revenue. It was decreased to 77.13% in the fiscal year 2004/05. But it was increased to 79.45% in the fiscal year 2005/06. Again it was increased to 81.09% in the fiscal year 2006/07. The ratio of tax revenue to total revenue was decrease to 79.12% in fiscal year 2007/08.

The above analysis is presented in percentage bar diagram below in figure.

Figure 4.1.1.1



From the above analysis and figure, it was seems that 79.29% of total government revenue is collected from tax revenues and 20.73% of total government revenue is collected from non-tax revenue in average. Tax revenue is major source of Nepalese government revenue and non-tax revenue has also contributing a considerable amount as compared to other individual tax revenue items. It takes second to third position if all individual comparison is made. Among all the individual revenue heads sales taxes (VAT) has been contributing comparatively more amount and other indirect taxes have been contributing comparatively least amount to Nepalese government revenue.

4.1.2 Ratio of Tax Revenue to total Revenue

Nepalese government revenue is collected from two sources, which are tax and non-tax sources. It is already analyzed that government revenue is a mix up of tax and non tax revenue. Revenue collected from tax and non-tax sources are presented separately in the table 4.1.2 below

Table 4.1.2

Contribution of tax revenue and non-tax revenue to total revenue (rupees in million)

Fiscal year	Total Revenue	Tax Revenue	% of Tax Revenue to total Revenue	Non-tax Revenue	%of Non-tax Revenue to Total Revenue
2003/04	60480.6	48173.3	79.65	12307.3	20.35
2004/05	70122.8	54104.9	77.13	16017.9	22.97
2005/06	72282	57430.4	79.45	14851.6	20.55
2006/07	87712.2	71126.7	81.09	16585.5	18.91
2007/08	107622.58	85155.54	79.12	22467.04	20.88
Average collection			79.288		20.73

Sources: i) Annual report of IRD (2003/04 to 2007/08)

ii) Quarterly Economic Report (2007/08), NRB.

The above table shows the contribution made by tax revenue and non-tax revenue to total revenue. In the fiscal year 2003/04, tax revenue was realized 79.65% of total revenue, which is second highest realization ratio as compared to other fiscal year till 2007/08. It was decreased to 77.13% in fiscal year 2004/05. Again it was increased to 79.45% in the fiscal year 2005/06. In fiscal year 2006/07, tax revenue was realized 81.09%, which is the highest realization ratio as compared to another fiscal year till 2007/08. It was dropped to 79.12% in fiscal year 2007/08, which was 1.97% point lower than the fiscal year 2006/07.

Tax revenue and non-tax revenue realization rate has an inverse relation. That means when highest ratio from tax revenue realized, ratio of non -tax revenue decreased. In the fiscal year 2003/04, the ratio of non-tax revenue to total revenue was 20.35% and it was increase to 22.97% in fiscal year 2004/05. The realization rate decreased to 20.55 in fiscal

year 2005/06. In fiscal year 2006/07 the contribution of non-tax revenue was slightly decreased by 1.64% and reach to 18.91%, which is decreased by 1.97% than previous fiscal year. Total non tax realized in fiscal year 2007/08 was 20.88% , which was the lowest contribution as compare to other fiscal years.

The data are presented by a multi-bar diagram below in figure 4.1.2.1 and trend line in figure 4.1.2.2

Figure 4.1.2.1

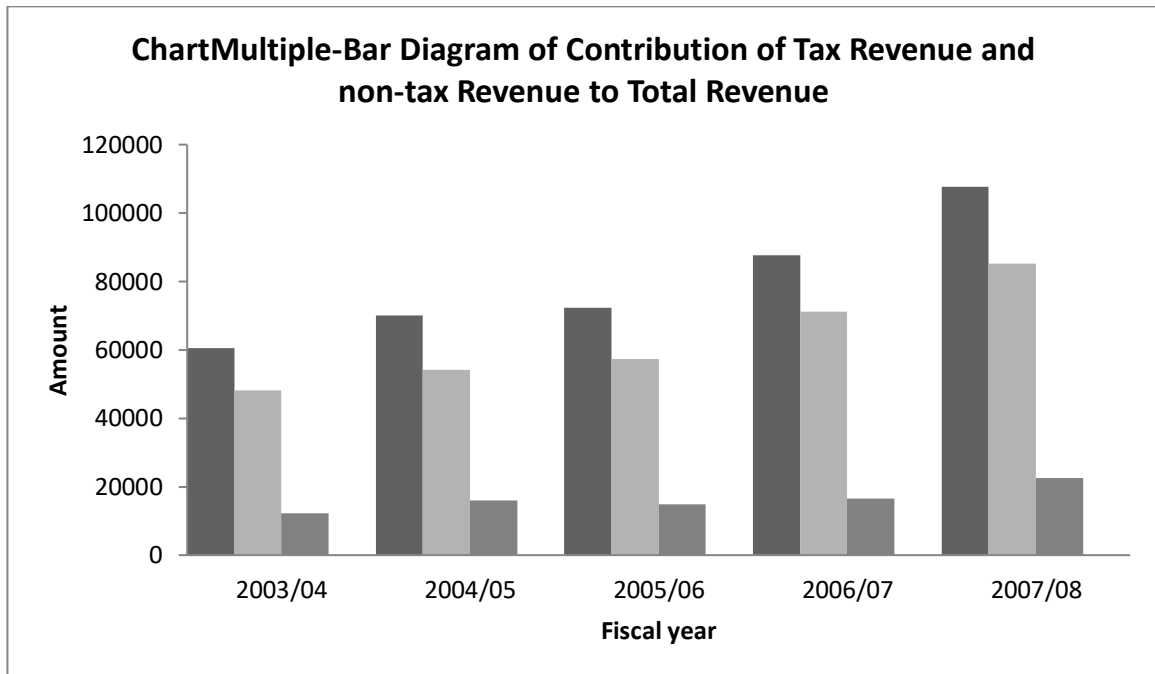
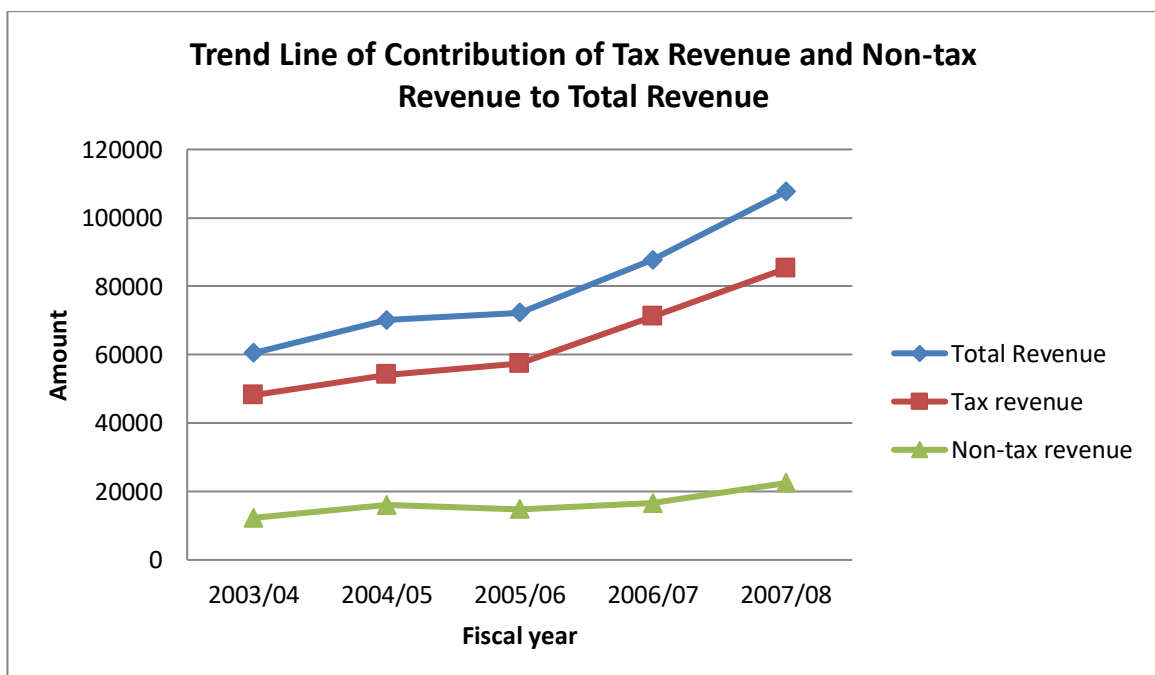


Figure 4.1.2.2



The above analysis shows that major part of Nepalese government revenue is collected from tax revenue. It occupies 79.288% of total revenue in average. Tax revenue is slightly fluctuating from the beginning to till now .Its trend is a little bit volatile. When non-tax revenue ratios increase, tax revenue ratio decrease and vice versa. In average, non-tax revenue has contributed 20.712% to total revenue. Non-tax revenue has a slightly volatile trend over the study period.

4.1.3 Share of Direct Tax on Total Tax Revenue and Total Revenue

Tax revenue is a composition of direct tax revenue and indirect tax revenue. Amount contributed by direct taxes to total government revenue and total tax revenue is presented in table 4.1.3 below:

Table 4.1.3

Share of Direct Tax on Total Revenue and Total Tax Revenue

(Rupees in million)

Fiscal Year	Total Revenue	Total tax Revenue	Direct Tax	% of Direct Tax on Total Revenue	% of Direct tax on Total Tax revenue
2003/04	60480.6	48173.3	11675.78	19.31	24.24
2004/05	70122.8	54104.9	12255.2	17.48	22.65
2005/06	72282	57430.4	13120.5	18.15	22.85
2006/07	87712.2	71126.7	17985.3	20.50	25.29
2007/08	107622.58	85155.54	23018.55	21.39	27.03
Average collection				19.366	24.41

Sources:

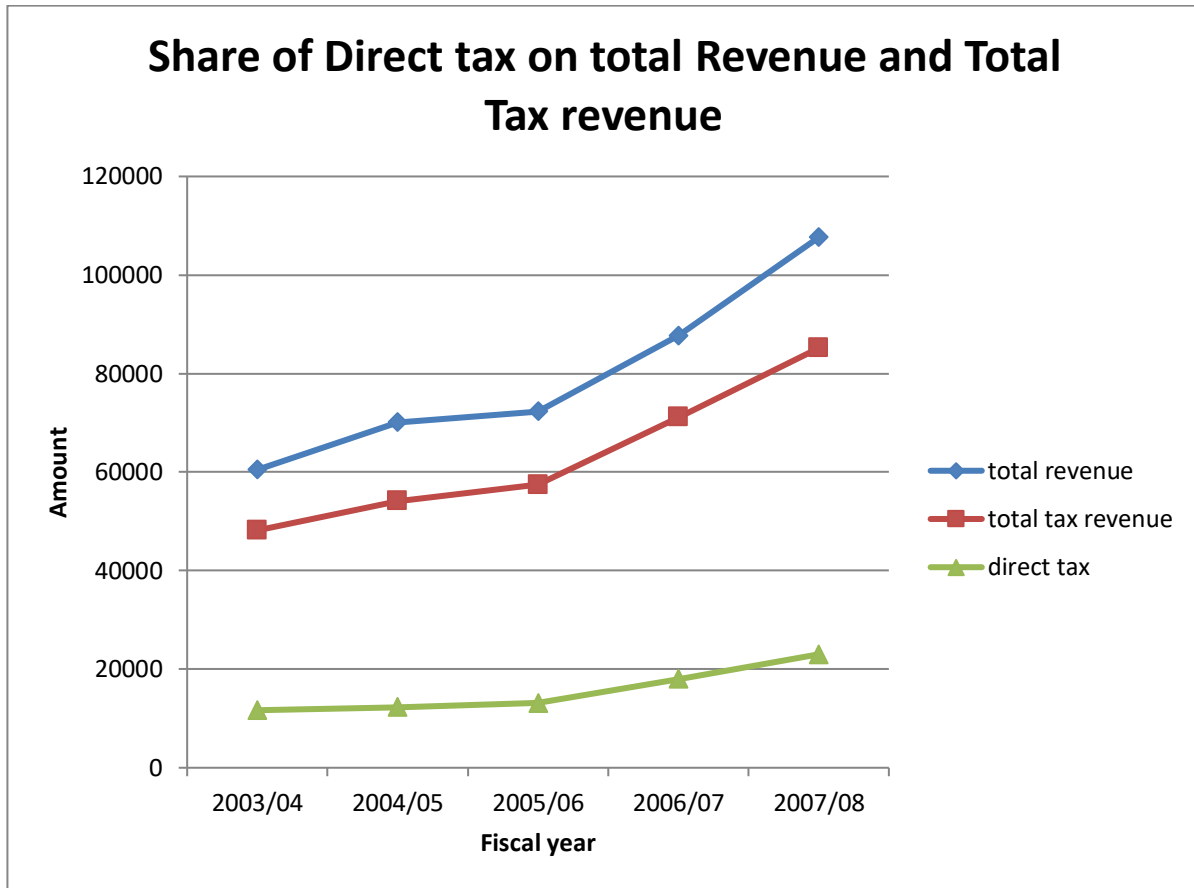
- i. Annual report of IRD(2003/04 to 2007/08)
- ii. Economic Report 2007/08,NRB
- iii. Economic surveys (2003/04 to 2007/08), Ministry of Finance

The data reveal the ratio of direct tax to total revenue and total tax revenue from the fiscal year 2003/04 to the fiscal year 2007/08. In the fiscal year 2003/04, the ratio of direct tax to total revenue was 19.31% and the ratio to total tax revenue was 24.24%.The ratio of direct tax to total revenue was decreased to 17.48% and the ratio of direct tax to total tax revenue was decreased to 22.65% in fiscal year 2004/05.

The tax realization rate of direct tax was increasing trend from the fiscal year 2005/06 to till. This ratio was 18.15% on the direct tax to total revenue sand 22.85% on direct tax to total tax revenue. The contribution of direct tax to total revenue and tax revenue in fiscal year was 20.50and 25.29% which are 2.35% and 2.44% more than previous year. Again the realization of direct tax to total revenue and total tax revenue was increased to 21%.

39% and 27.03% respectively, which are highest percentage of the revenue, above data are clearly presented with the help of the following figure:

Figure 4.1.3.1



From the above analysis, it is concluded that ratio of direct tax to total revenue has a fluctuating trend and the ratio of direct tax to total tax revenue has also following the same trend line. These two ratios have a positive relation. It means, when amount of direct tax increased the percentage contribution to total revenue and total tax revenue have also been increase and vice versa.

4.1.4 Structure of Income Tax Revenue in Nepal

Income tax is levied on profit or net income of organization and individuals. Income tax is a composition of corporate tax individual income tax, house and compound tax and interest tax. Corporate tax includes tax paid by government enterprise, public limited companies and private limited companies. Individual income tax includes income from remuneration or employment, industries, trade and profession of individuals. Besides, house and compound rent tax and interest tax are also included in income tax. Income tax structure of Nepalese tax revenue is presented in the table and diagram in the below.

Structure of income tax Revenue in Nepal

Table 4.1.4.1

Fiscal year	2003/04		2004/05		2005/06		2006/07		2007/08	
particular	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
A, Corporate Income tax	4838.69		5327.32		5395.70		11515.83		9767.74	
i, Government enterprise	2056.63	21.62	1331.56	12.74	185.88	1.70	1018.31	6.52	183.92	1.06
ii, Public limited companies	1531.27	16.09	2467.62	23.61	3537.44	32.46	5711.29	36.56	7110.48	41.03
iii, Private limited companies	1250.78	13.15	1528.14	14.62	1687.04	15.48	4786.21	30.64	2473.33	14.27
B, Individual income Tax	3539.41		3871.67		4234.65		2510.07		5971.19	
i, Remuneration	1391.52	14.62	1676.98	16.04	1751.50	16.07	2028.85	12.98	2294.55	13.24
ii, Industry trade and profession	2147.89	22.57	2194.69	21	2483.14	22.78	481.22	3.08	3676.64	21.22
C, House and compound tax	403.28	4.24	496.30	4.75	509.06	4.67	599.36	3.83	627.27	3.62
D, Interest tax	733.39	7.7	757.33	7.25	757.03	6.95	996.14	6.37	961.69	5.55
Total Income tax	9514.78		10452.63		10896.44		15621.43		17327.91	
Growth Rate			9.9		9.16		43.36		10.92	

Sources:

- i. Annual Report of IRD (2003/04 to 2007/08).
- ii. Economic Report, 2007/08, NRB
- iii. Economic Surveys (2003/04 to 2007/08), Ministry of Finance.

The above table shows the trend of income tax realization from various sources for the last five years. The data reveals that the total income tax realized in the fiscal year 2003/04 was amounting to Rs. 9514.74 millions out of which 16.09% was realized from public limited and 13.15% was realized from private limited companies. In the same fiscal year 14.62% of income was realized from remuneration income and 22.57% was realized from industry, trade and profession. The contribution of house and compound tax and interest tax was 4.24 and 7.7 respectively. As a whole, government enterprises had also made highest contribution during the year, which contribute 21.62% of the total tax income.

In the fiscal year 2004/05, the contribution of government enterprises has decreased to 12.74% which is 8.88% lower than previous year's realization. Again it was decreased to 1.7% of total tax income in fiscal year 2005/06 which is maximum lower than previous year. The percentage of government enterprise has increased in fiscal year 2006/07. It has

contributed 6.52% of the total tax income. Again it was decreased to 1.06% in fiscal year 2007/08, which is lower percentage as on the study period.

Public limited companies are also major corporate tax payer of Nepal government .It contribute the highest amount of corporate tax Public limited companies contribution in fiscal year 2003/04 was 16.09 percentage and 23.61% in fiscal year 2004/05.In tax realization in Nepal, share of Public limited companies have been rapidly increasing in the study period. IN fiscal year 2005/06 the share of public limited companies was 32.46% which is 8.85% more than previous year. Again it was increased by 4.10% in fiscal year 2006/07 and reach to 36.56%. Again in fiscal year 2007/08 the contributions of public limited companies are increased to 41.03% which was 4.47% more than previous year.

Private limited companies are also a corporate tax payer of Nepal. The corporate tax paid by private limited companies was 14.62% in fiscal year 2004/05 which was slightly more than previous year. In fiscal year 2005/06 the tax realized by private limited companies was slightly increased to 15.48%. Again the contribution of private limited companies are increased to 30.64% in fiscal year 2006/07 which was 15.16% more than previous year and this percentage is highest point contributed by the private limited companies in the study period. The contribution of private limited companies was decreased in fiscal year 2007/08 which was 16.37% low than previous year.

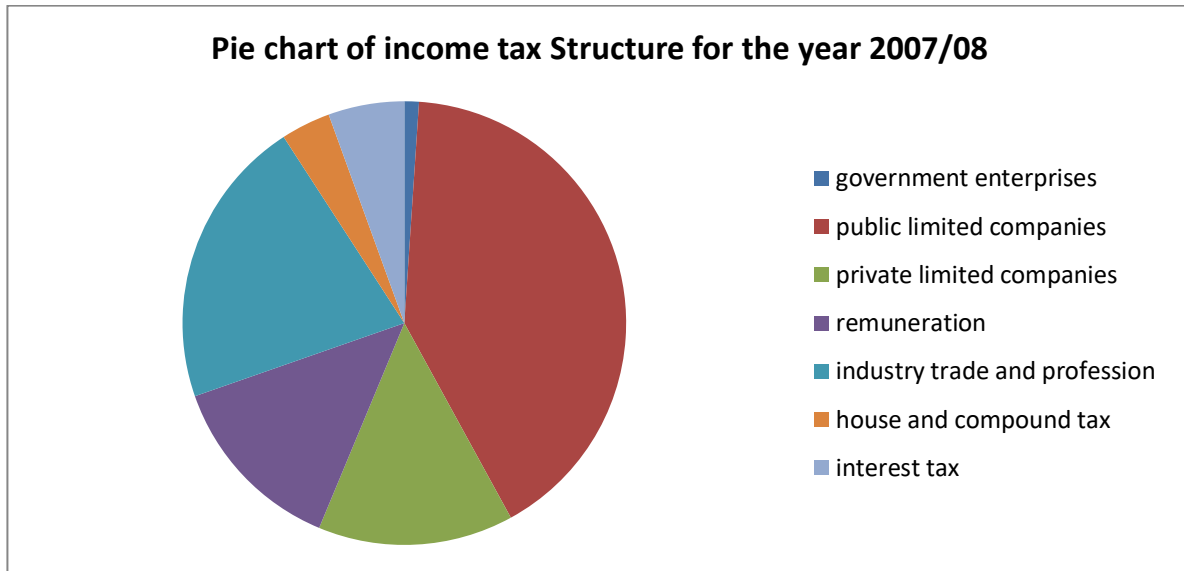
Remuneration income is also a source of corporate tax payer in Nepal. The contribution of remuneration in fiscal year 2004/05 was 16.04% which was 1.42% more than previous year. In fiscal year 2005/06 the share of remuneration was slightly increased to 16.07%, which was decreased to 12.98% in fiscal year 2006/07. Again the contribution of remuneration was increased to 13.4% in fiscal year 2007/08, which was slightly more than previous year.

Industry, trade and profession are also major source of income to Nepal government. In fiscal year 2004/05 the contribution of industry, trade and profession was 21%, which was 2.57% less than previous year. The contribution of industry, trade and profession was increased 22.78% in fiscal 2005/06, which was 1.78% more than previous year. The share of industry, trade and profession was highly decreased in fiscal year 2006/07, which was 19.7% low than previous year. Again the tax realization of industry, trade and profession was increased to 21.22% in fiscal year 2006/07,which was 18.14% more than previous year.

House land and compound tax also includes in income tax. It has contributed 3% to 5% amount to the total income tax within the whole study periods. The least amount 3.62% was realized in fiscal year 2007/08 and the highest amount, 4.75% was realized in fiscal year 2004/05. Interest tax contributed more amount than house and land and compound tax. Interest tax has contributed in 5% to 8% amount to total income tax.

The Nepalese income tax structure for the year 2007/08 is presented below by a pie chart in

Figure 4.1.4.1



The above analysis shows that income tax has been collected from various sources. Some of them have shown slightly Up and down. Public limited limited companies were the highest contributor to the total revenue. Industry trade and profession has contributed second highest contribution .Both of them were in increasing trend.

The amount of total income tax collection has been increasing trend. The average growth rate on income tax was 18.33%. The highest growth was 43.36%in fiscal year 2006/07and the lowest rate was9.9% in fiscal year 2004/05.and it was increased to 9.16% and the growth rate was 10.92% in fiscal year 2007/08.

4.1.5 Corporate Tax in Nepal

Tax paid by corporate bodies on their corporate profit is known as corporate tax. Government enterprise, public limited companies, Public limited companies and private companies are the main source of corporate tax in Nepal.

4.1.5.1 Ratio of Corporate Tax on Total Income Tax

Corporate tax is a direct tax, which is paid by the government enterprise, public limited companies and private limited companies. It is one of vital source of national revenue that can be mobilized in the country to get the fruit of development. It is Justifiable to increase the internal resource mobilization due to its nature. Increment of tax rate on indirect tax make heavy burden to local public because all the indirect taxes are being shifted to the customers indirectly. But, direct tax rate can be increased to minimize the effect which arise in case of indirect taxes. Direct tax is levied on the income generator without transferring tax liability to others People will be motivated to work hard and increase their economic status.

Table 4.1.5.1 shows the amount contributed by corporate tax to total income tax for the last five years.

Table 4.1.5.1
Ratio of corporate tax on Total Income Tax

(Rupees in million)

Fiscal Year	Total Income Tax	Corporate Tax	% of corporate tax on total income tax	Growth Rate(%)
2003/04	9514.78	4838.68	50.85	-
2004/05	10452.64	5327.32	50.96	9.17
2005/06	10896.44	5395.7	49.51	1.27
2006/07	15621.43	11515.83	73.71	53.14
2007/08	17327.91	9767.74	56.37	-15.18

Source: Annual Reports of IRD (2003/04 to 2007/08).

This table is presented by a trend line below in figure 4.1.5.1.

Figure 4.1.5.1

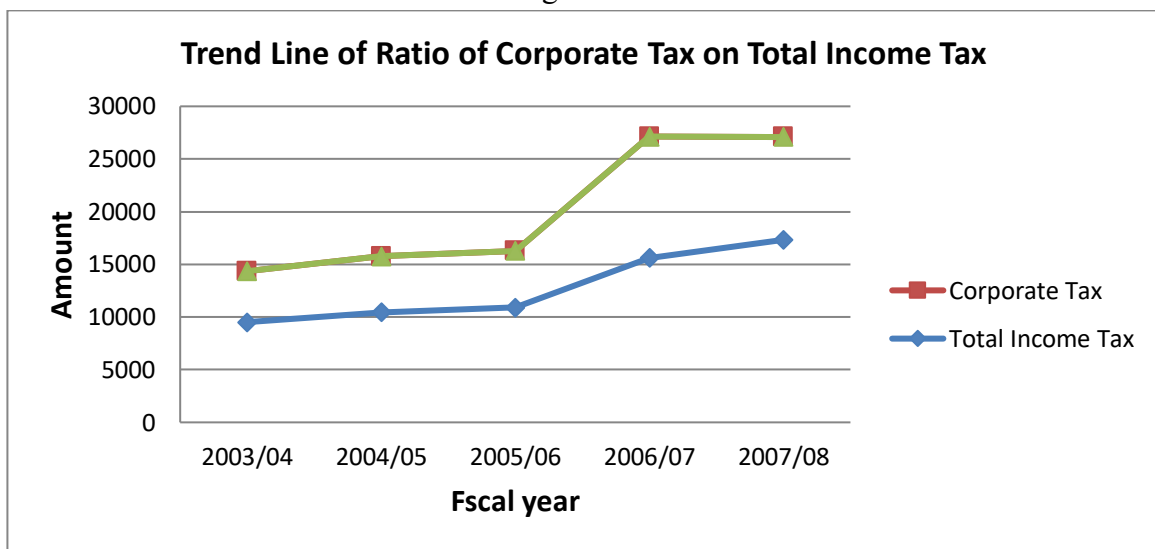
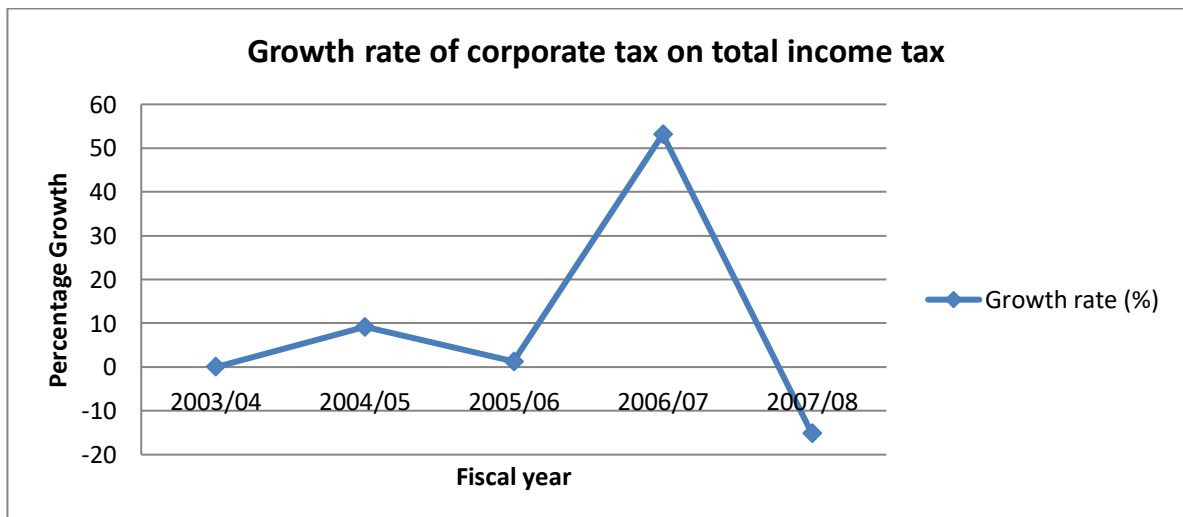


Figure 4.1.5.2



The data reveals that, in fiscal year 2003/04, income tax was realized Rs.9514.78millions and about this Rs4838.68millions was realized from corporate taxes. In other word, 50.85% of total income tax was realized from corporate tax in fiscal year 2003/04. IN fiscal year 2004/05. The realization ratio was increased to 50.96%, which was 0.16% higher than previous year. The ratio of corporate tax to total income tax was decreased to 49.51in fiscal year 2005/06, which was 1.45% lower than previous fiscal year. The ratio of corporate tax to total income tax was increased to 73.71 and 56.37% in fiscal year 2006/07 and 2007/08 respectively. The tax realized in fiscal year 2006/07 was the highest realization ratio over the study period

Growth rate has also fluctuating trend over study periods. Growth rate in fiscal year 2004/05 was 9.17% which was decreased to 1.27% in fiscal year 2005/06. The growth rate was highly increased to 53.14% in fiscal year 2006/07. Again it was decreased to -15.18% in fiscal year 2007/08.

4.1.5.2 Ratio of Corporate Tax on Total Revenue

As already defined, Nepalese government revenue is a composition of tax and non-tax revenue, income

Tax falls under the tax revenue and corporate tax is a main part of tax revenue as well as total revenue. Contribution made by corporate tax to total revenue is presented in table

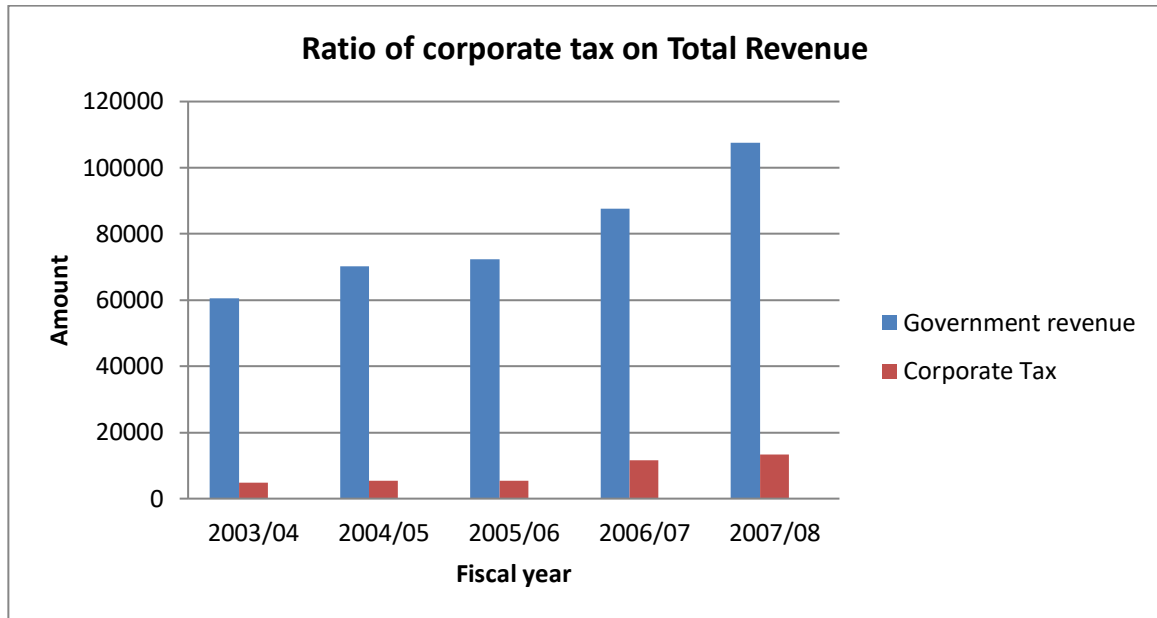
Table 4.1.5.2

Ratio of Corporate tax on Total Revenue

Fiscal year	Government Revenue	Corporate Tax	Corporate tax as % of Government Revenue
2003/04	60480.6	4838.68	8
2004/05	70122.8	5327.32	7.6
2005/06	72282	5395.7	7.46
2006/07	87712.2	11515.83	13.12
2007/08	107622.58	9767.74	9.07
Average contribution			9.05

The data reveals the ratio of corporate tax to total government revenue for the past five years. Ratio of corporate tax to total revenue for the fiscal year 2003/04 was 8% which was decreased to 7.6% in fiscal year 2004/05, which was 0.4% lower than previous fiscal year. Again it was decreased to 7.46% in fiscal year 2005/06, which is 0.14% lower than previous year. In fiscal year 2006/07 the growth rate of corporate tax was 13.12%, which is 5.66% higher than previous fiscal year. The growth rate was decreased by 4.05% and reach to 9.07% in fiscal year 2007/08. In average, it has contributing 9.05% of total government revenue. It is clearly presented by the figure below.

Figure 4.1.5.2



4.1.5.3. Corporate Tax Collection from commercial Banks

Commercial banks are public limited companies, They pay tax on their corporate profit. For the purpose of the study out of 26, 10 banks are taken as sample. They are EBL, HBL, NIC, LBL, Nabil, BOK, SCBL, SBI, KBL, and CTZ Bank respectively. The Table 4.1.5.3 shows the data in detail:

Table: 4.1.5.3

Corporate tax collection from commercial Banks

(Rupees in millions)

Fiscal Year	2003/04		2004/05		2005/06		2006/07		2007/08	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
NABIL	199.14	23.48	245.37	23.68	293.73	28.68	205.68	17.43	225.12	14.99
EBL	67.55	7.96	82.74	7.98	114.15	11.14	90.18	7.64	216.84	14.44
HBL	150.0	17.68	225.72	21.78	154.14	15.05	248.55	21.07	315.24	21.0
BOK	57.17	6.74	68.64	6.62	99.21	9.68	83.55	7.08	110.28	7.34
NICBL	28.54	3.36	58.08	5.6	44.64	4.36	69.63	5.9	74.67	4.97
LBL	21.7	2.56	35.2	3.4	10.73	1.05	67.77	5.74	98.61	6.56
KBL	20.44	2.41	28.08	2.71	42.87	4.18	83.91	7.11	117.63	7.83
SBI	67.81	8.0	65.13	6.28	65.94	6.44	118.35	10.03	76.53	5.09
SCBL	235.79	27.8	227.37	21.94	198.75	19.4	207.63	17.59	244.32	16.26
CTZBL	-		-		-		4.47	0.38	22.59	1.5
Grand total	848.14	100	1036.33	100	1024.19	100	1179.72	100	1501.83	100

Source: Annual Report of Commercial Banks

Table 4.1.5.3 shows the corporate tax collection from sampled commercial banks. The tables' shows individual contribution of each sampled commercial bank.

In the fiscal year 2003/04, NABIL bank's contribution was 23.48% to total corporate tax from sampled commercial banks. It was increased to 23.68 in fiscal year 2004/05. It was increased by 5% points in fiscal year 2005/06. It was decreased to 17.5 in fiscal year 2006/07 which was 11.18% less than previous fiscal year. Again it was decreased to 14.99% in fiscal year 2007/08.

EBL's contribution was 7.96% in fiscal year 2003/04, which was increased to 7.98% in fiscal year 2004/05 which was slightly increased than previous fiscal year. Again it was increased to 11.14% in fiscal year 2005/06 which was 3.16% more than previous year. The contribution was decreased by 3.475 and reach to 7.67% in fiscal year 2006/07. The contribution of EBL was increased to 14.44% in fiscal year 2007/08.

HBL's contribution was 17.68% in fiscal year 2003/04, which was increased to 21.78% in the next fiscal year i.e. in the fiscal year 2004/05. But in fiscal year 2005/06 the realization was decreased to 15.05% . Again it was increased to 21.15% in fiscal year 2006/07 and the contribution was 21% in fiscal year 2007/08.

BOK's contribution was 6.74% in fiscal year 2003/04 which was slightly decreased to 6.62% in fiscal year 2004/05. The realization was 9.68% in fiscal year 2005/06 which was 3.06% more than previous year. Again it was decreased to 7.10% in fiscal year 2006/07 and it was increased to 7.34% in fiscal year 2007/08.

NICBL's contribution was 3.36% in fiscal year 2003/04 which was increased to 5.6% in fiscal year 2004/05. The realization was decreased by 1.24% in fiscal year 2005/06 and reach to 4.36%. Again it was increased to 5.92% in fiscal year 2006/07 which was 1.56% more than previous year. The contribution was 4.97% in fiscal year 2007/08.

The contribution of LBL was 2.56% in fiscal year 2003/04 which is increased to 3.4% in fiscal year 2004/05, which was .84% more than previous year. In fiscal year 2005/06 the contribution was decreased to 1.05% which was increased by 4.72% and reach to 5.77% in fiscal year 2006/07. The contribution was made in fiscal year 2007/08 by 6.56% which was highest contribution within the study period.

The contribution of KBL was in increasing trend in the study period. The contribution was 2.41% in fiscal year 2003/04 which was slightly increased to 2.71% in fiscal year 2004/05. Again the contribution was increased to 4.18% in fiscal year 2005/06 and the contribution for fiscal year 2006/07 and 2007/08 was 7.14% and 7.83% respectively.

SCBNL has contributed comparatively highest amount to the total contribution made by commercial banks in the beginning of the study period but the share of SCBNL was decreasing trend. The contribution was 27.8% in fiscal year 2003/04 which was decreased to 21.94% in fiscal year 2004/05. Again the contribution was decreased by 2.54% and reach to 19.4% in fiscal year 2005/06. The contribution was 17.67% and 16.26% for fiscal years 2006/07 and 2007/08 respectively.

The contribution of SBI bank was remained highly fluctuating within the study period. In fiscal year 2003/04 the realization was 8%. This was decreased to 6.28% in fiscal year 2004/05. It was slightly increased to 6.44% in fiscal; year 2005/06. The contribution for fiscal years 2006/07 and 2007/08 was 10.07% and 5.09% respectively.

There was no contribution made by CTZBL from fiscal year 2003/4 to 2006/07 because of the newly established commercial bank. The contribution for fiscal year 2007/08 was 1.5%.

In conclusion the highest contribution was made by SCBNL at beginning and HBL at end of study period.

If sampled banks were divided in to three categories, SCBNL, HBL, EBL and NABIL have come to the highest contributor's rank. BOK, SBI and KBL have also a considerable amount in corporate tax. These banks were felled into the medium categories. In third group or the lowest contributor become NICBL, LBL and CTZBL. The lowest amount was contributed in fiscal year 2003/04 which was Rs. 848.14 million only and the highest contribution was made in fiscal year 2007/08 which was Rs. 1501.83 million only.

4.1.5.4. Average Corporate Tax Collection from Commercial Banks with Mean, Standard Deviation and Co-efficient of Variation

Table 4.1.5.4 shows the average corporate tax payment made by commercial banks with standard deviation and co-efficient of variation of tax payment. The detail data is presented below.

Table 4.1.5.4

Average Corporate Tax Collection from Commercial Banks with Mean, Standard Deviation and Co-efficient of Variation.

Name of Bank	Mean payment of corporate tax (X)	Standard Deviation of payment(S.D)	Coefficient of Variation (CV)
NABIL	233.80	34.03	14.55%
HBL	218.73	43.16	19.73%
EBL	114.29	53.43	46.74%
NIC	55.11	16.84	30.56%
LBL	46.80	32.22	68.84%
KBL	58.58	36.77	62.77%
BOK	83.77	19.38	23.13%
SCBL	222.77	17.09	7.67%
SBI	78.75	20.21	25.66%
CTZBL	13.53	9.06	66.96%

Source: Appendix-I

The above table shows that among the sampled commercial banks, SCBL has lowest co-efficient of variation i.e. 7.67%. The lowest CV indicates that corporate tax payment of SCBL was very close to average payment than other. NABIL has CV of 14.55% which was

slightly greater than SCBL. Among these sampled commercial banks, LBL, CTZBL, and KBL have highest CV which was 68.84%, 66.96 and 62.77% respectively, that means corporate tax payment of LBL, CTZBL and KBL has high volatile than other commercial banks.

From the above analysis, which ranking made, three banks NABIL, SCBL and HBL has contributed highest amount to corporate tax every year. As the value of CV there is low volatile in tax payment in SCBL, NABIL and HBL during the study period. Tax payment of LBL, CTZBL and KBL has remained highly volatile within the study period which is represented by highest CV among sample banks. Other banks payment remained in moderate situation.

In conclusion, average tax payment of Nabil is higher than other sampled commercial banks. SCBL has lower CV which represent that SCBL's corporate tax payment was very close to the average than other commercial banks.

4.1.5.5. Corporate tax Contribution from Commercial Banks to Total Revenue

Table 4.1.5.5. Corporate Tax Contribution from Commercial Banks to government revenue for the last seven years. This table shows that the contribution made by sampled commercial banks to total revenue was 1.40% in fiscal year 2003/04 which was increased to 1.48% in fiscal year 2004/05 which was 0.08% more than previous fiscal year.

Table 4.1.5.5

Fiscal year	Government Revenue	Corporate Tax from Commercial Banks	% on total Revenue
2003/04	60480.6	848.14	1.40
2004/05	70122.8	1036.33	1.48
2005/06	72282	1024.19	1.42
2006/07	87712.2	1179.72	1.34
2007/08	107622.58	1501.83	1.39

Sources: 1) Annual Report of IRD

2) Table 4.1.5.3

From the fiscal year 2005/06, the contribution was begin to decreased and realized 1.42 and 1.34% for the fiscal year 2005/06 and 2006/07 respectively. Again the contribution was increased to 1.39% in fiscal year 2007/08.

In the whole study period, the contribution made by commercial banks to total revenue was remained highly fluctuating within the whole study period. The highest contribution made by sampled commercial banks to the total revenue was remained 1.48% in fiscal year 2004/05. The lowest contribution was only 1.34% in fiscal year 2006/07. The above analysis shows the same output which was obtained from the table no. 4.1.5.3.

4.1.5.6. Corporate Tax Contribution from Commercial Banks to Total Tax Revenue

Table 4.1.5.6 shows the ratio of corporate tax contribution from commercial banks to total tax revenue for the last five years. This table shows that contribution made by CBs was 1.66% to 1.91% within the study period.

Table 4.1.5.6

Corporate tax Contribution from Commercial Banks to Total Revenue
(Rupees in million)

Fiscal Year	Total tax Revenue	Corporate Tax from CBs	% on total tax revenue
2003/04	48173.3	848.14	1.76
2004/05	54104.9	1036.33	1.91
2005/06	57430.4	1024.19	1.78
2006/07	71126.7	1179.72	1.66
2007/08	85155.54	1501.83	1.76

Sources: 1) Annual Reports of IRD
2) Table 4.1.5.3

The data reveals the same output, which was found the table 4.1.5.6. In the fiscal year 2003/04, commercial banks' contribution was 1.76% to total tax revenue. In the fiscal year 2004/05 commercial banks' contribution was increased to 1.91%. In fiscal year 2005/06 and 2006/07, CBs contribution was 1.78% and 1.66% respectively. In fiscal year 2007/08, the contribution was increased to 1.76%.

As per the finding obtained by the sample, the highest contribution made by Commercial banks was 1.91% in fiscal year 2004/05 and the lowest contribution was 1.66% in fiscal year 2006/07. The realization ratio was remained highly fluctuating within the five years study period.

4.1.5.7 Contribution of corporate Tax from Commercial Banks to Income Tax

The ratio of corporate tax contribution from commercial banks to total income tax is presented below in Table 4.1.5.7

Table 4.1.5.7

Contribution of Corporate Tax from Commercial Banks to Income Tax
(In Million Rupees)

Fiscal Year	Total Income tax	Corporate tax from CBs	% on Total Tax Revenue
2003/04	9514.78	848.14	8.91
2004/05	10452.64	1036.33	9.91
2005/06	10896.44	1024.19	9.4
2006/07	15621.43	1179.72	7.55
2007/08	17327.91	1501.83	8.67

Sources: (1 Annual report of IRD
2) Table 4.2.5.3

The data reveals that in the fiscal year 2003/04 about 9514.78 million income taxes was collected from which 848.14 million was collected from sampled CBs and which was about 8.91% of total income tax revenue. In fiscal year 2004/05, 9.91% of income tax was collected from CBs. The contribution was slightly decreased in fiscal year 2005/06 and only 9.40% of total income was collected from CBs. The contribution in fiscal year 2006/07 was 7.55% which was the lowest contribution from each group within the study period. In fiscal year 2007/08, the ratio was slightly increased and reached to 8.67%.

4.1.5.8 Ratio of Corporate Tax from Commercial Banks to Total Corporate Tax

Table no. 4.1.5.8. Shows the ratio of corporate tax from commercial banks to total corporate tax for the last five years. This table shows that commercial banks contribution was

Table 4.1.5.8

Ratio of Corporate tax from Commercial Banks to Total corporate tax

(In Million Rupees)

Fiscal Year	Total corporate tax Revenue	Corporate Tax from CBs	% on Total Tax Revenue
2003/04	4838.68	848.14	17.53
2004/05	5327.32	1036.33	19.45
2005/06	5395.7	1024.19	18.98
2006/07	11515.83	1179.72	10.24
2007/08	9767.74	1501.83	15.37

Sources: 1) Annual report of IRD.

2) Table 4.1.5.3

The data reveals that, in fiscal year 2003/04 about 4838.68 million amounts of corporate tax was collected, from which 848.14 million was collected from CBs. Percentage contribution from slightly increased to 19.45% in fiscal year 2004/05. In the fiscal year 2005/06, the ratio of contribution was slightly decreased and reached to 18.98%. The contribution for fiscal year 2006/07 and 2007/08 was 10.24% and 15.37% respectively.

This table shows the same output which was obtained in table 4.1.5.3. It means that the highest contribution was made by commercial banks was 19.45% in fiscal year 2004/05 and lowest contribution was 10.24% in fiscal year 2006/07. The realization ratio was remained fluctuating within the whole study period.

4.1.6. Relationship between corporate Tax and GDB

Gross Domestic Product indicates the value of goods and services produced within the nation. If it is represented in the incomes of factor of production, it is known as GDP at factor cost and it is known as GDP at market price if goods and services rate charged at ruling price. For the purpose of analysis, gross domestic product at current market price is taken as a base. The relationship between GDP and corporate tax is presented below in table 4.1.6

Table 4.1.6

Relationship between tax and GDP

(In million Rupees)

Fiscal year	GDP	G.R (%)	Corporate Tax	As % to GDP.
2003/04	472424	-	4838.68	1.02
2004/05	504101	6.7	5327.32	1.05
2005/06	582950	15.64	5395.7	0.93
2006/07	670588.7	15.03	11515.83	1.71
2007/08	820814	22.4	9767.74	1.19

Source: Annual Reports of IRD.

The data reveals that contribution ratio to total Gross Domestic Product was in increasing order. The data shows that in fiscal year 2003/04, the contribution of corporate tax to total GDP was 1.02% which was slightly increased to 1.05% in fiscal year 2004/05. The contribution was decreased to 0.93% in fiscal year 2005/06. Again the contribution was increased to 1.71% in fiscal year 2006/07. In the fiscal year 2007/08, the contribution was decreased to 1.19%.

The GDP growth rate was remained volatile within the five study period. Growth rate on GDP was 6.7% in the fiscal year 2004/05 and it was increased to 15.67% in fiscal year 2005/06. But it was slightly decreased to 15.03% in fiscal year 2006/07. In fiscal year 2007/08 the growth rate was highly increased and reaches to 22.4%.

The contribution of corporate tax to total GDP was remaining fluctuating from 2005/06. The highest contribution of corporate tax to total GDP was 1.71% in the fiscal year 2006/07. Amount of GDP has a positive growth the five years study period.

4.2 Analysis of Primary Data

For the fulfillment of this study, primary information was also collected through a scheduled questionnaire and personal visit, Tax expert, banking professionals, professors and general public who have adequate knowledge and practice of taxation had taken as respondents. There were nine scheduled questions, out of them 8 questions were six-degree Likert-type scale and rest is ordinal type.

First five questions were developed to get response about present tax payment system and procedure. Second three questions were prepared to study the soundness of existing tax rate for commercial banking sector. One question was formulated to analyze tax planning. One of each questions were generated to analyze the preference of customers, facilities concessions and rebates, income tax administration and reason for low contribution. As per the scientific questionnaire rule, cross-questions were also formulated to minimize the false and fake information.

Summary of respondents responses for each of the identified factors are presented in this section independently. All the necessary information and calculation are presented in appendices with the help of SPSS data analysis software.

4.2.1 Self tax Assessment Procedure is preferable for the Taxpayers

The response of the respondents for this question were found as shown in table 4.2.1

Table 4.2.1

Self-tax Assessment Procedures is preferable for the Taxpayers

S.N.	Responses	No. of Respondent	Cum No.	percentage	Cum%
1	Strongly agree	13	57	12.38	54.29
2	Relatively agree	21		20	
3	Agree	23		21.91	
4	Disagree	17	48	16.19	45.71
5	Relatively Disagree	18		17.14	
6	Strongly Disagree	13		12.38	
	Total	105	105	100	100

Source- Appendix II

From the primary response, it is identified that 54.29% of the respondents were agreed that the self-tax assessment procedure is preferable for the taxpayers. Only minority respondents, that's 45.71% of the respondents were found disagree with this statement. Thus from this revealed that self-tax assessment procedure is preferable for the taxpayers.

4.2.2 Self Assessment is superior to Raise Government Revenue

The response of the respondent for this question were found as shown in table4.2.2

Table 4.2.2

Self Tax Assessment is superior to raise Government Revenue

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly agree	18	68	17.14	64.76
2	Relatively agree	35		33.33	
3	Agree	15		14.29	
4	Disagree	8	37	7.62	35.24
5	Relatively disagree	23		21.91	
6	Strongly disagree	6		5.71	
	Total	105	105	100	100

Source-Appendix II

By analyzing primary response of the respondents, it is found that 64.76% of the respondents were agreed with the statement that self-tax assessment is better option to raise the government revenue. Only 35.24% of the total respondents were found disagree with this statement. So, this data reveals that self- tax assessment is better to increase the government revenue. The statement is focused on self-motivation of taxpayers.

4.2.3 Tax Payment procedure should be Simple to Encourage Taxpayers

The response of respondents for this question were found as shown in table 4.2.3

Table:4.2.3

Tax Payment Procedure should be Simple to Encourage Taxpayers

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum %
1	Strongly agree	40	91	38.10	86.67
2	Relatively agree	29		27.62	
3	Agree	22		20.95	
4	Disagree	5	14	4.76	13.33
5	Relatively Disagree	7		6.67	
6	Strongly Disagree	2		1.90	
	Total	105	105	100	100

Sources-Appendix II

By observing the primary response of the respondents, it is found that 86.67% of the respondents were agreed with the statement that tax payment procedure should be simple to encourage tax payers. Only 13.33% of respondents were found disagreed with this statement. The data reveals the fact that the tax payment procedure should be simple to encourage taxpayers.

4.2.4 Installment Tax Payment System is Favorable to the Taxpayer

The response of the respondents for the question were found as shown in table 4.2.4

Table: 4.2.4

Installment Tax Payment System is Favorable to the Taxpayer

S.N.	Response	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly agree	17	67	16.19	63.81
2	Relatively agree	37		35.24	
3	Agree	13		12.38	
4	Disagree	7	38	6.67	36.19
5	Relatively Disagree	24		22.86	
6	Strongly Disagree	7		6.66	
	total	105	105	100	100

Source: Appendix II

By the response of the respondents, it is found that 63.81% of the respondents were agreed that the installment tax payment system is favorable to taxpayers. Only 36.19% of respondents were found disagree with this statement .Therefore, it is revealed the fact that installment tax payment system is favorable to the tax payers.

4.2.5 Banking Sector Requires Tax Rebate Facilities as Other Industries

The responses of the respondents for this question were found as shown in table 4.2.5

Table:4.2.5

Banking Sector Requires Tax Rebate Facilities as Other Industries

S.N	Responses	No. of Respondents	Cum. No	percentage	Cum.%
1	Strongly agree	26	68	24.76	64.76
2	Relatively agree	24		22.86	
3	Agree	18		17.14	
4	Disagree	9	37	8.57	35.24
5	Relatively disagree	19		18.1	
6	Strongly disagree	9		8.57	
	Total	105	105	100	100

Source: Appendix II

From the primary responses, it is found that 64.76% of the respondents were agreed that banking sector requires tax rebate facilities as other industries. It shows that only 35.29% of respondents were found as disagree with this statement. It shows that only less than average respondents were satisfied with the tax facilities and rebate provided to commercial banking sector.

4.2.6 Tax Rate should be Identical to banks and other company

The respondents response for this question were found as shown in table 4.2.6

Table -4.2.6

Tax Rate should be Identical to the Banks and other Company

S.N.	Response	No. of respondent	Cum. No.	Percentage	Cum%
1	Strongly agree	8	38	7.62	36.19
2	Relatively agree	11		10.48	
3	Agree	19		18.10	
4	Disagree	23	67	21.9	63.81
5	Relatively Disagree	27		25.71	
6	Strongly Disagree	17		16.19	
	Total	105	105	100	100

Source: Appendix II

From the response of the respondents it is found that only 36.19% of respondent were agreed that the tax rate should be identical to the banking business and other business. The majority respondents that are 63.81% respondents were against to this statement. The data shows the fact that the tax rate should be different as per the nature of business.

4.2.7 Commercial Banks are Bigger Tax Payer to the Total Revenue

The responses of the respondents for this question were found as shown in table 4.2.7

Table:4.2.7

Commercial banks are Bigger Tax payers to the Total Revenue

S.N	Response	No. of Respondent	Cum. No	Percentage	Cum.%
1	Strongly agree	25	68	23.81	64.76
2	Relatively agree	28		26.67	
3	Agree	15		14.28	
4	Disagree	9	37	8.57	35.24
5	Relatively Disagree	17		16.19	
6	Strongly Disagree	11		10.48	
	Total	105	105	100	100

Source: Appendix II

From the primary responses, it is revealed that 64.76% of the respondents were agreed that commercial banks are bigger tax payer to the total revenue. It shows that only 35.24% of respondents were found as disagree with this statement .It shows that only less than average respondents were satisfied with the commercial banks are bigger tax payers to total revenue.

4.2.8 Commercial Banks are Loyal to Tax Payment.

The responses of the respondents for this question were found as shown in table 4.2.8.

Table: 4.2.8

Commercial Banks are Loyal to tax Payment

S.N.	Response	No. of respondent	Cum. No.	Percentage	Cum.%
1	Strongly agree	25	68	23.81	64.76
2	Relatively agree	26		24.76	
3	Agree	17		16.19	
4	Disagree	9	37	8.57	35.24
5	Relatively Disagree	16		15.24	
6	Strongly Disagree	12		11.43	
	Total	105	105	100	100

Source: Appendix II

By the primary responses, it is found that 64.76% of the respondents were agreed that commercial banks are loyal to tax payment. It reveals that only 35.24% of respondents were found as disagree with this statement. It shows the fact that commercial banks are Loyal to tax payment.

4.2.9 What Type of Tax Concession facilities and Incentives to be given to the Commercial Banks?

This question was asked to give suggestion and recommendation to the government for providing additional facilities to the commercial banks.

Table: 4.2.9

What Type of Concession Facilities and Incentives to be given to the commercial banks?

S.N.	Response	No. of Respondents	Percentage
1	Investment Tax Credit	42	40.00
2	Carry forward/backward of losses	15	14.29
3	Tax holidays	13	12.38
4	Accelerated depreciation	11	10.48
5	Tax rate deduction	24	22.85
	Total	105	100

Sources: Appendix II

From the above table it is found that 40% of respondents were focused that additional investment tax credit facility should be provided to the commercial banks. 14.29% of respondents were agreed that additional carry forward/backward of losses facility should be provided. 12.38% of respondents were focused on tax holiday, 10.48% of respondents were agreed accelerated depreciation facility should be given and rest 22.85% of respondents were referred the tax rate deduction facility.

By analyzing the data, the fact is revealed that the most common addition facility needed for Commercial bank is additional investment tax credit.

4.3 Finding of study

Finding is the summary of data presentation and analysis. Finding appeared both from secondary data and primary data analysis is presented separately.

4.3.1 Finding from Secondary Data Analysis

All the secondary data has been presented and analyzed by using financial and statistical tools. This topic focused on the major finding from secondary data analysis, which are derived from the comparative study on income tax collection from joint venture and non-joint venture commercial banks in Nepal. The major finding drawn from the secondary data presentation and analysis of sampled commercial banks are represented below.

1. To fulfill the objectives of this research study. Nepalese government revenue structure has been analyzed. From this analysis, it is found that about 79% of Total revenue comes from tax revenue and rest 21% of total revenue comes from non tax revenue in fiscal year 2007/08. Among the heads of tax revenue, sale tax has contributed highest amount of tax and other indirect taxes has contributed the lowest tax amount.

2. The highest percentage of total revenue collected from tax sources was 81.09% in fiscal year 2006/07 and the lowest percentage of amount collected from the same source was 77.13% in fiscal year 2004/05. In above stated fiscal years, non-tax revenue and tax revenue was collected lowest and highest percentage respectively.
3. From the ratio analysis of direct tax to total revenue and total tax revenue, it is found that direct taxes contribute a considerable amount total revenue and total tax revenue. In average 19.36% of total revenue and 24.41% of total tax revenue were collected from direct taxes within the whole study period. Highest contribution made by direct tax to total revenue and total tax revenue was 21.39% and 27.03% in fiscal year 2007/08. The realization rate of direct tax was remained fluctuating over the study period.
4. Income tax revenue consists of corporate tax, individual income tax, house and compound tax and interest tax. Among these four sources, corporate income tax is a highly contributing source to total income tax. It has contributed average 56.28% amount to total income tax within the study period. Corporate tax has a positive growth rate except fiscal year 2007/08.
5. The average contribution made by corporate tax to total revenue is 9.05%. It has contributed from 7.46% to 13.12% amount to total revenue within the five years study period.
6. Among the sampled commercial banks, income tax contribution made by NABIL is a higher than others and among the sampled non joint venture commercial banks, KBL banks contribution is considerable. The lowest contributors among these are SBI and CTZBL respectively. HBL and NIC have made a moderate contribution. NABIL bank is seemed as a highest corporate tax payer among all the sampled commercial banks.
7. SCBL bank has the lowest CV of 7.67% which indicates that the corporate tax payment of SCBL was very close to average payment. Average tax payment of CTZBL was very low and it has a highest CV too. It indicates that CTZBL has contributed the lowest amount of tax and payment has a high volatility than others.
8. From the comparative ratio analysis of corporate tax of corporate tax from commercial banks to total revenue, income tax revenue and corporate tax, it is found that better amount has contributed by commercial banks as compare to other sector.
9. The ratio of corporate tax contribution from sampled CBs to GDP was remained in between 0.93% to 1.71%. It was remained highly fluctuating within the Five years study period.

4.3.2 Findings from Primary Data Analysis

The primary data analysis regarding comparative study on income tax collection from commercial banks the following major findings are drawn out.

1. In order to get rid of the Discrimination between domestic and foreign investment, the prevailing identical tax rate system for commercial banks is favorable.

2. Other industries get more tax rebates and facilities as compare to banking business. In order to promote the banking business and to create competitive environment, banking sector also requires tax incentives, rebates and facilities as other sector
3. Taxpayer determine their tax liability oneself under self tax assessment procedure. It motivates taxpayers to pay tax amount in time and it will be helpful to increase government revenue
4. To improve the profitability ratio of each commercial banking sector, They need tax concession facilities and incentives such investment tax credit. Carry forward of losses and carry back ward of losses facility, tax holidays, reduction of tax rate facility and accelerated depreciation facility.
5. To collect more government revenue and to motivate tax payers to pay tax, tax payment procedure should be simple. Installment tax payment system is favorable for taxpayers and it is

Chapter-V

Summary, Conclusion and Recommendations

5.1 Summary

This research study has focused on the comparative study on income tax collection from commercial banks in Nepal. In other to this study nine commercial banks were taken as sample Viz. NABIL, HBL, EBL, SCBL, NICBL, LBL, KBL, BOK, SBI and CTZBL. Analysis is made comparatively on income tax contribution made by them for the past five years period. The main objective of this study is to make comparative analysis on income tax collection from commercial banks in Nepal. To accomplish the specific objectives, The following supporting objectives were formulated which are as follows:

- i. To analyze the proportion are contribution of commercial banks to total tax revenue, Total income tax and total corporate tax.
- ii. To analyze relevant opinions & views of bankers & stake holders regarding income tax
- iii. To point out main income tax related problems faced by commercial banks.
- iv. To provide necessary suggestions and recommendation about income tax collection with special references to commercial banks.

For the achievement of these objectives, this research study is divided into five chapters specifically introduction, review of literature, research methodology, data presentation & analysis and summary, conclusion & recommendations.

The first chapter is about introduction, this includes a brief introduction of commercial banks, statement of the problems, objective, significance, organizations under study, scheme of the study and limitation acquaintances with this research report are presented.

IN the second chapter, theoretical review has been made. Introduction of income, introduction of income tax, development and evolution of income tax, special provisions regarding banking business, methods of income tax assessment, penal provisions, income tax management, tax administration and review of some related studies are presented.

Related previous studies, websites, reports and dissertation are viewed and meeting has been made with professionals for necessary qualitative and quantitative analysis. It also incorporates some related study, which has been done by the further researchers.

Research design, population and sample, variable, data collection procedure, presentation and analysis tools are described in third chapter. The framework of data presentation and analysis is determined by research methodologies.

The forth chapter, which is recognized as body of the research study, includes various data presentation and analysis. Both secondary and primary data are presented and analyzed

by using appropriate financial and statistical tools to make the data presentation and analysis effective. Ratio analysis, mean, standard deviation and co-efficient of variance has been calculated as per the nature and needs of data analysis and presentation.

In the fifth chapter summary, conclusion and recommendations are drawn out. Summary and conclusion of the study are presented and necessary suggestion and recommendations are provided to the concerned tax authorities like commercial banks, IRD, Government and NRB for the further betterment.

This research study is not far away from different limitations. It has considered only ten sample banks from different sectors. Time and resource are the constraints of the study. Therefore, the study may not be generalized in all cases. Accuracy depends upon the collected and provided data from various organizations and respondents.

5.2 Conclusion

From the data presentation and analysis, the following conclusions have been drawn out.

- i. From the study of structure of Nepalese government revenue it its revealed that Nepalese government revenue is a composition of tax and non-tax revenue.
- ii. Only about one fourth portion is collected from non-tax sources.
- iii. More than three forth portion of Nepalese government revenue is collected from tax sources.
- iv. Tax revenue consists of both direct and indirect taxes. Direct tax is collected 19.36% of total revenue in average per year and it contributes average 24.41% amount to total revenue.
- v. From the income tax structure analysis, it is seen that Nepalese income tax structure is a composition of corporate income tax, individual income tax, house and compound tax and interest tax.
- vi. Corporate tax contributes more than 50% amount to total income tax per year and it is become a highest contributing source of income tax revenue.
- vii. From the analysis of ratio of corporate tax to total revenue it is depicted that corporate tax occupies a significant portion of total revenue. In average 9.05% of total revenue is collected from corporate taxes.
- viii. From the average or mean analysis it is found that.
 - Mean payment of NABIL bank is highest among all sampled commercial banks
 - SCBL has a second position and HBL has a third position in corporate tax payment.
 - Among the sampled commercial banks CTZBL has a lowest mean.
 - LBL has a second lowest mean among sampled commercial banks it denotes the lowest contribution.

- ix. To find out the uniformity of corporate tax payment CV is calculated on the basis of mean and standard deviation. From the analysis it is found that.
- SCBL bank has a lowest CV among sampled commercial banks. NABIL, HBL and BOK have a moderate CV, which is slightly greater than the CV of SCBL. CTZBL has highest CV among sample commercial banks. Lowest CV of SCBL indicate the annual corporate tax payment of SCBL is closest to average payment and vice versa.
 - CTZBL, LBL and KBL has the highest CV among sampled commercial banks. It means that average corporate tax payment of CTZBL, LBL and KBL has a high fluctuation.
- x. Corporate tax collection from each sector will be maximized by providing additional facilities and incentives to the commercial banking sector. Rate of income tax should be differentiated according the nature of business. Problems facing by commercial banks while paying corporate tax are vague provision of tax laws and order of tax assessment by tax authorities. To collect more government revenue, tax payer should be motivate taxpayers. Persons are conscious about tax planning and they pay tax by hoping that tax amount which is paid by them through their income should be utilized in a better job.
- xi. Commercial banks pay tax on their corporate profit as per the prevailing laws. According to the Income Tax Act, 2002, Nepalese commercial banks are liable to pay tax at thirty percent on their income from business and investment plus surcharge or special fees of 1.5%.

From the primary data analysis regarding comparative study on income tax collection from commercial banks, the following conclusions are drawn out.

- i. In order to overcome the discrimination between domestic and foreign investment. The prevailing identical tax rate system for commercial banks is favorable.
- ii. Other industries may get more tax rebates and other facilities as compare to banking business. In order to promote the banking business and to create competitive environment, banking sector also requires tax incentives, rebates and facilities as other sector.
- iii. To collect more government revenue and to motivate tax payers to pay tax, tax payment procedure should be simple. Installment tax payment system is favorable for taxpayers and it is proficient to minimize the tax burden.
- iv. Taxpayers determine their tax liability oneself under self tax assessment procedure. It motivates taxpayers to pay tax amount in time and it will be helpful to increase government revenue.
- v. To improve the profitability ratio of each commercial banking sector, they need tax concession facilities and incentives such investment tax credit carry forward of loss and carry back ward of losses facility, tax holidays, reduction of tax rate facility and accelerated depreciation facility.

5.3 Recommendations

Recommendation is the output of the whole study. It helps to take the constructive action in their future activities. Various analysis are made to arrive at this step. ON the basis of data presentation, analysis and finding, the following suggestions and recommendations may be referred to overcome weakness and inefficiency relating to income tax collection from commercial banks and taking corrective actions to the concerned authorities.

To Commercial Banks

The following points are recommended to the commercial banks.

1. Level of Non-performing assets should be controlled.
2. Quality service should be provided to attract the customers.
3. Invest only one secure sector or taking more and profitable securities.
4. Market expansion strategy should be followed to introduce the fame.
5. All level customers should be covered to retain at comparative position in market.
6. Follow the rule and regulation of NRB
7. All level customers should be covered to retain at comparative position in market.
8. Ratio of corporate tax payment tax payment to TR, TTR, TIT, CT and GDP should be maximized.
9. Launch effective and competitive programs to get market coverage.
10. Invest on the development of the nation and to develop infrastructure in the country.

To Nepal Rastra Bank

NRB is the regulatory body of all commercial banks, which makes rules, regulations and direct to Commercial banks for their effective implementations. As a central bank and bank of banks NRB is recommended the following points.

1. Regular monitoring and evaluation should be made for the effective profitability management of commercial banks.
2. As a regulatory body, NRB should direct to arrange the AGM and sent the record to NRB in time.
3. Stop giving licenses to new commercial banks.
4. Find out strength and weakness of commercial banks and suggest them to follow corrective action in their further activities.
5. For the non-managed banks, facilities and incentives should be deducted.

To Inland Revenue Department.

The government is a responsible body of country. National country is influenced by the policies, programs, rules and regulation compliance by government .Government is also connected to the income tax collection. As a responsible body the following points are suggest to the government.

1. Economic and political stability should be made.
2. Necessary rules and regulation should be implemented and hock decisions, rules and regulations should be discouraged.
3. Facilities and incentives should provide to the commercial banks in order to improve the service quality and to create competitive environment.

Provide new or separate desk to the commercial banks to pay tax.

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Appendix-I

Calculation of Mean, Standard Deviation and Co-efficient of variance of Corporate Tax paid by Commercial Banks

Table: 1

NABIL Bank Limited

Fiscal Year	Corporate Tax Payment(X)	X - \bar{x}	(X - \bar{x}) ²
2003/04	199.14	-34.66	1201.31
2004/05	245.37	11.57	133.86
2005/06	293.73	59.93	3591.60
2006/07	205.68	-28.12	790.73
2007/08	225.12	-8.68	75.34
	$\sum X = 1169.04$		$\sum (X - \bar{x})^2 = 5792.84$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{1169.04}{5} = 233.80$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{x})^2} = 34.03$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 14.55\%$$

Table:2

Himalayan Bank Limited

Fiscal Year	Corporate Tax Payment(X)	X - \bar{x}	(X - \bar{x}) ²
2003/04	150.0	-68.73	4723.81
2004/05	225.72	6.99	48.86
2005/06	154.14	-64.59	4171.87
2006/07	248.55	29.82	889.23
2007/08	315.24	96.51	9314.18
	$\sum X = 1093.65$		$\sum (X - \bar{x})^2 = 9314.18$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{1093.65}{5} = 218.73$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{x})^2} = 43.16$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 19.73\%$$

Table :3

Everest bank Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	67.55	-46.74	2184.63
2004/05	82.74	-31.55	995.4
2005/06	114.15	-0.14	0.019
2006/07	90.18	-24.11	581.29
2007/08	216.84	102.55	10516.50
	$\sum X = 571.46$		$\sum (X - \bar{x})^2 = 14277.83$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{571.46}{5} = 114.29$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{x})^2} = 53.43$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 46.74\%$$

Table :4

Nepal Industrial and Commercial Bank Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	28.54	-26.57	705.96
2004/05	58.08	2.97	8.82
2005/06	44.64	-10.47	109.62
2006/07	69.63	14.52	210.83
2007/08	74.67	19.56	382.59
	$\sum X = 275.56$		$\sum (X - \bar{x})^2 = 1417.82$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{275.56}{5} = 55.11$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{x})^2} = 16.84$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 30.56$$

Table: 5

Lumbini Bank Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	21.7	-25.1	630.01
2004/05	35.2	-11.6	134.56
2005/06	10.73	-36.07	1301.04
2006/07	67.77	20.97	439.74
2007/08	98.61	51.81	2684.27
	$\sum X = 234.01$		$(X - \bar{x})^2 = 5189.62$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{234.01}{5} = 46.80$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{x})^2} = 32.22$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 68.84$$

Table: 6

Kumari Bank Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	20.44	-38.14	1454.66
2004/05	28.08	-30.5	930.25
2005/06	42.87	-15.71	246.8
2006/07	83.91	25.33	641.61
2007/08	117.63	59.05	3486.9
	$\sum X = 292.93$		$(X - \bar{x})^2 = 6760.22$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{292.93}{5} = 58.58$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{x})^2} = 36.77$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 62.77$$

Table : 7

Bank of Kathmandu Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	57.17	-26.6	707.56
2004/05	68.64	-15.13	228.92
2005/06	99.21	15.44	238.39
2006/07	83.55	-0.22	0.0484
2007/08	110.28	26.51	702.78
	$\Sigma X = 418.85$		$(X - \bar{x})^2 = 1877.6984$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{418.85}{5} = 83.77$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \Sigma (X - \bar{x})^2} = 19.38$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 23.13$$

Table:8

Standard Chartered Bank Nepal Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	235.79	13.02	169.52
2004/05	227.37	4.6	21.16
2005/06	198.75	-24.02	576.96
2006/07	207.63	-15.14	229.21
2007/08	244.32	21.55	464.40
	$\Sigma X = 1113.86$		$(X - \bar{x})^2 = 1461.25$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{1113.86}{5} = 222.77$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \Sigma (X - \bar{x})^2} = 17.09$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 7.67$$

Table: 9

Nepal SBI bank limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	67.81	-10.94	119.68
2004/05	65.13	-13.62	186.05
2005/06	65.94	-12.81	164.09
2006/07	118.35	39.6	1568.16
2007/08	76.53	-2.22	4.93
	$\Sigma X = 393.76$		$(X - \bar{x})^2 = 2042.91$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{393.76}{5} = 78.75$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \Sigma (X - \bar{x})^2} = 20.21$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 25.66\%$$

Table :10

Citizens bank International Limited

Fiscal Year	Corporate Tax Payment(X)	$X - \bar{x}$	$(X - \bar{x})^2$
2003/04	-	-	-
2004/05	-	-	-
2005/06	-	-	-
2006/07	4.47	-9.06	82.08
2007/08	22.59	9.06	82.08
	$\Sigma X = 27.06$		$(X - \bar{x})^2 = 164.16$

$$\text{Mean } (\bar{x}) = \frac{\Sigma X}{N} = \frac{27.06}{2} = 13.53$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \Sigma (X - \bar{x})^2} = \sqrt{\frac{1}{2} \times 164.16} = 9.06$$

$$\text{Co-efficient of variance (CV)} = \frac{\sigma}{\bar{x}} \times 100 = 66.96\%$$

Appendix – II

Summary of Analysis of Primary Data

(6 Degree Likert-type Scale questionnaire)

S · N	Variable/Response	S.A		R.A		A.		D.		R.D.		S.D.		Total	
		N	%	N	%	N	%	N	%	N	%	N	%	N	%
1	Self-tax assessment procedure is preferable for tax payer.	13	12.38	21	20	23	21.9	17	16.19	18	17.14	13	12.38	105	100
2	Self-tax assessment is superior to raise government revenue.	8	17.14	35	33.33	15	14.28	8	7.62	23	21.9	6	5.71	105	100
3	Tax payment procedure should be simple to encourage tax payers.	40	38.09	29	27.62	22	20.95	5	4.76	7	6.67	2	1.9	105	100
4	Installment tax payment is favorable to the tax payers.	7	16.19	37	35.24	13	12.38	7	6.67	24	22.86	7	6.67	105	100
5	Banking sector requires tax rebate facilities as other industries.	26	24.76	24	22.86	18	17.14	9	8.57	19	18.09	9	8.57	105	100
6	Tax rate should be identical to the banking and other business.	8	7.62	11	10.47	19	18.09	23	21.9	27	25.71	17	16.19	105	100
7	Commercial banks are bigger tax payers to the payers to the total revenue	25	23.81	28	26.67	15	14.28	9	8.57	17	16.19	11	10.47	105	100
8	Commercial banks are loyal to tax payment	25	23.81	26	24.76	17	16.19	9	8.57	16	15.24	12	11.43	105	100

Source: Research Questionnaire and SPSS Data Analysis software.

Where, SA=Strongly Agree, RA- Relatively Agree, A=Agree, D= disagree, RD= Relatively Disagree
SD=Strongly Disagree

Appendix-III

Research Questionnaire

Dear respondents,

The research questionnaire is developed to find the revenue collection from commercial banks in Nepal. For this research reports your valued opinion, experience and thoughts may play a significant role. Thus you are kindly requested to fill the scheduled questionnaire as mentioned below by rating how much you agree with the mentioned statements.(Note: SA=Strongly Agree, RA- Relatively Agree, A=Agree, D= disagree, RD= Relatively Disagree SD=Strongly Disagree)

S.N.	Variables	SA	RA	A	DA	RDA	SDA
1	Self-tax assessment procedure is preferable for tax payers.	1	2	3	4	5	6
2	Self- tax assessment is superior to raise government revenue.	1	2	3	4	5	6
3	Tax payment procedure should be simple to encourage tax payers.	1	2	3	4	5	6
4	Installment tax payment system is favorable to the tax payers.	1	2	3	4	5	6
5	Banking sector requires tax rebate facilities as other industries.	1	2	3	4	5	6
6	The tax rate should be identical to the banking and other business.	1	2	3	4	5	6
7	Commercial banks are bigger tax payers to the total revenue.	1	2	3	4	5	6
8	Commercial banks are loyal to tax payment.	1	2	3	4	5	6

9) What type of tax concession and incentives to be the commercial banks?

(Please give number 1,2,3... on priority basis)

- a) Investment tax credit b)carry forward/backward of loss c)Tax holidays
d)Accelerated depreciation e)Tax rate deduction

1. Name of respondents:

2.Designation:

3. Service duration:

4.Organization:

Date: