

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The government of a country is responsible towards the nation and the people. For this, the government undertakes various activities for the betterment of its people. Keeping their interests at the focal point, the government performs various developmental works, generates employment opportunities, handles day-to-day administration, maintains peace & security and launches other public welfare activities. These activities cannot be executed without adequate resources. Therefore, the government requires to mobilize sufficient resources for the proper execution nation's economic development plans (Dhakal, et al., 2073, p. 1).

In each country, the public authority for the protection of common people spends a lot of funds and for the creation of various social economic infrastructures. Protection expenditure includes the purchase of arms and ammunition, maintenance of army or police and administration of justice and jail. Commercial expenditure are also incurred by the government for operating rail ways, air ways and other public enterprises. Which are undertaken by the government for the public interest. The third type of public expenditure made on providing education, health, communication, transportation, water supply, irrigation and public utility facilities to the community . So the government has needed sufficient funds for (a) regular activities (b) commercial activities and (c) development activities. The nation will be able to achieve maximum social welfare if it has sufficient funds (Bhattarai, et al., 2012).

Government expenditure is increasing day by day because of demand of time, increase in population, social progress, war and preparation for war, increase in price and others. To meet the growing public expenditure and other activities, government has to manage its funds. The sources of public funds are of two types viz. internal sources and external source.

Developing country like Nepal, have limited sources of internal funds so most of the development activities depends on the external sources. The external sources of financing are bilateral and multilateral aids, grants and loans from foreign countries or

donor agencies. These sources have been limited, inconvenient and not suitable to boots up our economy due to the vested interest of the donor agencies. The reality is that we have been implementing most of the policies and programs of the donor countries /agencies, paying high interest accepting the inappropriate conditions on taking loan.

Internal resource mobilization is equally important to both developed and developing countries. Internal sources of public funds are important not only for necessary financing funds, but also for proper utilization of external sources. Based on the nature of sources, the public funds are also classified into revenue (public income) and borrowing. The public income or revenue includes taxes, fees, fines, penalties. Special assessment, gifted. Borrowing includes both internal and external. Most of the public expenditure is financed through taxation and borrowing. Taxes and charge are withdrawn from the private sector without leaving the government with a liability to the payee. Borrowing involves a withdrawn made in return for the government's promise to repay at a future date and to pay interest in the interest.

Similarly, external sources of funds are foreign grants and loans. This kind of funds is received from foreign countries and international organizations. External sources of funds are more important for undeveloped countries like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition, etc. External resources are uncertain, inconvenient and not good for healthy development of nation because they have to be paid after a certain period of time. On the other hand, internal sources of fund includes both tax and non-tax revenue. Continuous uses of external sources of funds to raise necessary public funds are not good because it reduce the liquidity of the government. So, internal sources of funds are more important not only for financing necessary funds but also for mobilization of internal sources. It is better to mobilize internal sources rather than looking with beggars eyes to the donors (Dhakal, 2012).

On the other hands government tries to collect finance resources through internal sources. It is very important to developing country like Nepal. But it is not able to mobilize the internal resource satisfactorily. The major constraints in domestic resource mobilization are poor utilization of natural resources, small and stagnant

industrial enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration etc.

The role of tax in Nepal has developed dramatically to enable the government to implement its fiscal policy in order to become more independent. The tax system in Nepal was expanded to achieve not only fiscal objectives but also economic and social objectives.

Nepal is adopting mixed economy and is one of the members of non- alignment movement. But after the restoration of multiparty democracy in 1990, Nepal is slightly entering into the market economy by means of economic liberation and privatization. Now the Nepalese government and its donor communities are advocating for the public private partnership in development programs. Participatory approaches in the development programs have been introduced to increase the affection of the people on such programs for the sustainable development but it is in its primitive stage and facing hurdles.

The main objective of the tax system in a developing country is the promotion of saving and investment and also growth in industry including exports. Nepal has been mobilizing resource for capital formation and plugging back private saving and investments. Taxation in the modern world has been taken as the best device to raising the ratio of saving to national income (Agrawal, 2004).

Tax policy has two major objectives. One is economic and the other is revenue collection. Tax policy may influence the saving, investment, production and labour. The revenue objective of tax is to raise more revenue. The vision of Nepalese income taxation is not clear. Sometimes it looks like an economic tool and sometimes it is presented as a revenue tool. In recent year, it is playing the role of revenue tool more and economic tool less. The other objective is to broaden the income tax base by bringing all income generating economic activities in to its sold; it is the example of tax policy being used as a revenue tool.

The Income Tax Act, 2058 has replaced the old one of fulfill of a foresaid objective. The objective of introducing the new act is to enhance the revenue mobilization through revenue collection procedures. The main Moto of this act is to promote the economic development of the nation. This act has amended about undue performance.

For this purpose, there must be better program for taxpayer's education assistance, guidance and counseling.

Income tax plays a vital role in the economic development of Nepal. It is a tool of achieving maximum social, political and economical objectives a laid down by the government of the Nepal. The history of modern income tax is not very old in Nepal the idea of introducing income tax in Nepal originated in the early 1950's when a multiparty Democratic political system was introduced in 1951's the finance minister in his budget speech declared the intention of the government to introduce income tax the first elected government in 1959's finally introduce business profit and salaries tax act 1960's in Nepal after about three years experience of income tax. The government replaced the prevailing tax act by Income Tax Act, 1962. The income tax Act, 1962 was replaced by Income Tax Act, 1974, which was amended for eight times and existed for a period of 28 years. The Income Tax Act, 1974 and all the income tax related provisions made under other special enactment have been replaced and the existing Income Tax Act, 2058 because effective since Chaitra 19, 2058. The act governs all Income tax matters and is applicable throughout the nations. Governments have to spend a lot of money to attain the social goals and development. The responsibility may be different prospective for uplifting the economic growth and development. Available resources are the major sources for nation building through maximum utilization.

Legal provisions have been made and updated timely, there are many problems about income tax and exemptions and deductions. There are many problems in income tax practice in Nepal, such as leakage in tax, feeling of people; about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new taxpayer, delays in computation and collection, lack of accuracy and unity in accounting system etc. The main objectives of taxation are more revenue collection. Exemptions and deductions play important role to collect the tax. Because of all these reasons exemptions and deductions of income tax system must be reviewed and immediate correction can be made.

1.2 Statement of the Problem

Underdeveloped countries are facing serious problem in the process of economic development. Nepal is also not an exemption to this condition, the majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time. Thus every nation of the world is accomplishing various measure adopted by the government to boost revenue collection, there is still a substantial resource gap between expenditure is exceeding the rate of growth revenue almost every year. In other words, Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficits, currency depreciation, inflationary pressure, rising interest rates which may cause crowding out effect and reduction in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increased the level in which the level and speed of our expenditure is rising. Raising the government revenue helps to overcome from the serious bottleneck of resource gap in the process of economic development program by mobilizing additional resources from domestic sources.

Income tax act 2058 provides special facilities and incentives to the manufacturing industries in depreciation, income tax rate etc. It motivates the public to operate manufacturing industries which contributes in total tax revenue of the government. However, the contribution of manufacturing industries in the total revenue is still very low, thus it is needed to increase the income tax from the manufacturing sectors. Large taxpayers who are evading their income from the manufacturing sectors should be brought into tax bracket.

Hence, this study is related with the effectiveness of special facilities provided by the ITA 2058, analysis of the contribution of tax and non-tax revenue in total revenue and contribution of income tax in total revenue, tax revenue and direct tax.

- a. What is the income tax structure in Nepal?
- b. What is contribution of income tax to total revenue?
- c. What is the impact of special facilities provided to manufacturing industries by ITA, 2058?

1.3 Objectives of the Study

The main objective of the study is to analyze the impact of special provisions in manufacturing industries provided by income tax act 2058. Following are the other objectives of the study.

- a. To analyze the income tax structure of Nepal.
- b. To analyze the contribution of income tax in total revenue, tax revenue and direct tax revenue.
- c. To examine the impact of special facilities provided to manufacturing industries by ITA 2058.

1.4 Significance of the Study

There are very few corporate bodies and their economic performance is very dismal. So there is need to growth and development of corporate sector in our nation. The government needs huge amount of funds to spend on daily expenses as well as development activities. Every year, Nepalese has been presenting deficit budget, there is increment in resource gap. Most of the activities depend on bilateral and multilateral grants and loans. The nation is hardly bearing the loan and internal source of revenue is not sufficient even to meet the ordinary expenses. In this context, the easy and long lasting way to increase revenue to strengthen the internal source is income tax. Thus, revenue collection form income tax form manufacturing industries by providing special facilities is carried out by ITA 2058 by eliminating the limitations of previous act.

The study is useful to economic, planner, tax administrators, government and other interested person about the revenue collection form manufacturing industries in Nepal and the problem of income tax collection from manufacturing industries. It also provides the information about trends and projection of income tax collection form the manufacturing sectors.

1.5 Limitations of the Study

The study has the following limitations:

- a. The study is related only with the contribution of income tax in total government revenue, tax revenue and direct tax revenue.

- b. This study was done using primary data but was collected only from Kathmandu valley.

1.6 Organization of the Study

The study is organized into five main chapters which denote to some clearing and settlement system.

Chapter-I: Introduction: First chapter is the introductory part of the research which deals with background of the study, statement of the problem, objective of the study, significance of the study and limitations of the study.

Chapter-II: Review of literature: Second chapter is related with review of related literature which consists of theoretical as well as empirical review.

Chapter-III: Research methodology: Third chapter deals with research methodology which shows the guideline of the research contains research design, population and samples, sources of data, data collection techniques and data analysis tools.

Chapter-IV: Results and Discussion: Fourth chapter is the main chapter of the study which is related with data presentation and analysis. In this chapter collected data and information have been properly analyzed with the help of various tools and techniques mentioned in chapter three.

Chapter-V: Conclusion: Summary, conclusion and implications for further improvement have been mentioned in chapter five.

Finally, bibliography and appendices have also been presented.

CHAPTER-II

LITERATURE REVIEW

Review of literature will be divided into two parts i.e. theoretical literature and empirical literature. Theoretical review provides concepts concerning the subject matter that are written on textbook on one hand. On the other hand, empirical review provides reviews the previous studies which are related to the subject matter of this study. Literature review begins with a search for a suitable topic and continuous throughout the duration of the research work.

2.1 Theoretical Review

2.1.1 Taxation

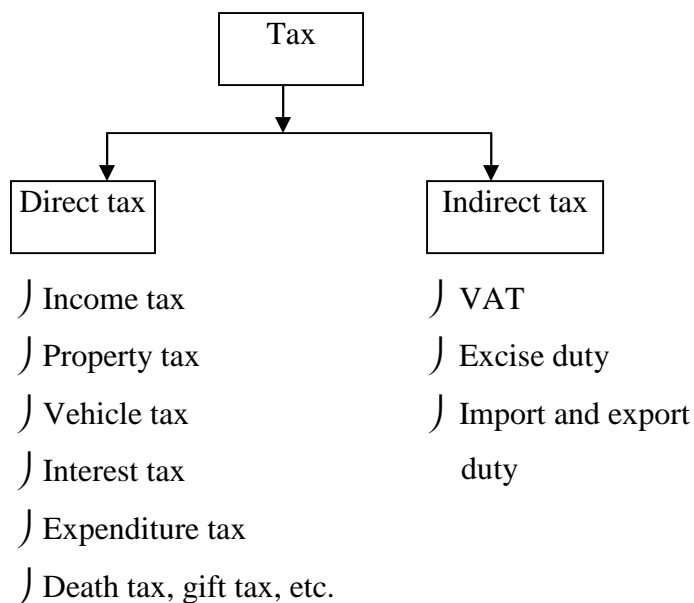
It would be better to take the definition given by Prof. Seligman. In his words, tax is the “compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit occurred”. From the definition given above, it can be said that a tax is a compulsory levy and these who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The tax payer do not have any right to receive the direct benefits from the tax paid. Due to this compulsory nature, people have expressed different views in satirical way about taxation. In this respect, some say ”nothing is certain in this world but death and tax”. Some say “death means stopping to say tax”. Here it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payment without getting benefits but it is not tax because its objective is not to do collect revenue but to curb certain types of offences. Taxpayers can not receive any direct benefits from the payment of tax. The tax payer does not receive equivalent benefit from the government. In case of tax, it is not a price paid by one for which he can claim for the goods and services by public authority is not a tax. The tax is paid to the government for running it. In case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. A natural or a artificial person pays the tax.

In conclusion, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assessor have income of a minimum amount from certain

specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities which have been chosen from taxation.

2.1.2 Classification of Taxes

On the basis of shifting of burden tax can be classified into two broad categories; direct and indirect tax. This is most common and popular classified of tax.



Source: Dhakal, et al., 2073, p. 7.

a) Direct Tax

A direct tax is a form of tax paid by a person on whom it is legally imposed . It is collected directly by the government from the person who bears the tax burden. Tax payers need to file tax returns directly to the government. Therefore, direct tax can not be shifted. The impact or the money burden and the incidence are on the one and the same person pays and bears the tax burden. It is the tax on income and property. Examples include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc.

b) Indirect Tax

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax, the impact and incidence of tax are on different persons. In other words the person paying and bearing the tax is different. It

is the tax on consumption or expenditure. Example include vat, excise duty, import and export duty etc.

2.1.3 History of Income Tax in Nepal

Nepalese tax system was based on Vedas, Smritis and Purans. Directives propounded by Menu, 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 people.

Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in B.S. 2008 (1951 A.D.) stated about the introduction of income tax system in Nepal However, it was actually introduced only in 1960 A.D. when the Finance Act, 2016 and Business Profit and Remuneration Tax Act, 2017 were enacted. The marginal rate of taxation prescribed by these acts was 25 percent. Since, the income tax was imposed only on income from business profit and remuneration, the tax act could not cover all the source of income and so was replaced by the income Tax Act, 2019 in 2019 B.S. (1962 A.D.). Income Tax Act, 2019 with 29 sections divided the heads of income into 9 parts covering business, profession and occupation, remuneration, house and land rent, cash are kind investment, agriculture, insurance business, agency business and other sources. The act was amended in 2029 extensively. However, considering this act incapable of fulfilling the time was replaced in 2031 B.S. (1974 A.D.) by another act.

As already stated, Income Tax Act, 2031 replaced Income Tax Act, 2017 in B.S. 2031 (1974 A.D.). This act having 66 sections classified the sources of income into 5 heads namely (1) Agriculture, (2) Industry, Business, Profession or Vocation, (3) Remuneration, (4) House Rent and (5) Other sources. However, agriculture income was kept outside the tax net except few years through the finance Acts. This Act was amended for eight times and existed for a period of 28 years.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2058 (2002 A.D.). This Act became effective since Chaitra 19, 2058 (01, April 2002). The Act governs

all income tax matters. Likewise, this Act is applicable throughout the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal.

2.1.4 The Features of Income Tax Act, 2058 (2002 A.D.)

Tax system is the sub-system of the total economy. Tax policy is changed with the change in the economic policy of the country. Change in word economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economics like Nepal have to adopt the economic policy followed by world Bank, International Monetary Fund , Asian Development Bank and other International Agencies. Especially other 1990s, there is re-emergence of the Liberalization, Globalization and Privatization system that focuses on the minimum intervention of the state on private economic matters. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country, ITA, 2058 is the result of the change in all these matters. The following are the features of the ITA 2058:

All Tax related matters within one Act

Before the introduction of ITA,2058; there were almost one and half dozen acts related to income taxation. ITA, 2058 has abolished all tax-related laws given in other acts and embraced all income tax related matters within it.

Specification of Tax Rates

Earlier, the tax act had not dealt with rates. Finance Act of each year used to deal with the rates. However, ITA, 2058 has embraced the tax rates applicable to all the sources of income.

Abolishing of Various Tax Related Concessions, Rebates and Exemptions

Most of the facilities provided by the government in past to taxpayers were used for tax evasion. ITA, 2058 has abolished most of the facilities given by earlier Acts and introduced a fair system of taxation.

Specification of Stock Valuation Methods

ITA, 2031 was silent about the method of stock valuation for taxation purpose. However, ITA, 2058 has made a provision of valuing the stocks of goods for tax purpose.

Simplification of Depreciation Related Provisions

ITA, 2031 had complicated provisions related to depreciations. The types of assets categorized for depreciation purpose were around 3 dozens. Different rates were allocated to different types of assets. However, ITA, 2058 has specified diminishing balance method based on pool system with only 5 categories of assets.

Tax on Capital Gains and Dividends

ITA,2031 had not the provisions of taxing capital gains and dividends. But ITA, 2058 in contrast has made legal provisions of taxing these items. A rate of taxes for dividend is laid as 10 percent where as the capital gain is taxed ordinary income of business.

Liberal Loss Set off and Carry-Forward Provisions

ITA, 2031 had made the provisions of setting off and carry forwarding of business losses only for three years from the same source of income. That is inter head provision only. But ITA, 2058 has made provisions of inter-head adjustment for one year and intra-head adjustment for four years. For financial sector and long-term contract the provisions more liberal are providing the facility of recovering the losses from previous profit also.

Provision of International Taxation

Due to closed economy concept, international taxation was not felt necessary and hence there was not such tax provision in ITA 2031. But now this concept is introduced in the credit, double taxation agreement etc.

Strict Fine and Penalty Provisions

The fines and penalties for the defaulter in old Act were not as severe as in new tax Act. But ITA, 2058 has made the provision of fine and penalty more stringent.

Submission of Income Statement

This act has made a provision of relaxing the submission of income statement by a person who does not have taxable income or who has the income only from remuneration.

2.1.5 Source of Income

Income is a accretion of wealth or purchasing capacity of a person or entity . According to income Tax Act, 2058 it is the term used to defined income derived from employment, business and investment. It is a gross income less deduction allowed under the Act. This means, Income Tax Act 2058 has specified sources of income into three heads named.

- a. Income from a business (section 7)
- b. Income from an employment (section 8)
- c. Income from an Investment (section 9)

Section 6 of the Act specifies that the assessable income includes income earned from any country of the world in case of resident and income earned in Nepal in case of non – resident.

2.1.6 Types of Industries

The industries operating in Nepal are broadly classified as under: (Adhikari, 2010).

Manufacturing Industries

The industries which produce goods by utilizing or processing raw materials ,semi – processed materials by products or waste products or any other goods are called manufacturing industries.

Energy Industries

Industries generating energy from water resources and wind, solar, coal natural oil and gas, biogas or any other sources are energy industries.

Agro and Forest Industries

Agro and forest based industries business mainly based on agriculture or forest products such as integrated sericulture and skilled production ,horticulture and fruit and processing animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seed farming, mushroom, vegetable farming or vegetable processing, tissue culture, green house, bee-keeping, honey production, rubber farming, floriculture and production, and forestry related businesses such as lease – hold forests, agro forestry etc.

Mineral Industries

The industries that operates by exploiting or extraction of natural resources for industrial purpose .

Tourism Industries

Tourism lodging, motel, hotel, resort, travel agency, skiing, gliding, water rafting, cable car complex, pony – trekking ,trekking , hot air ballooning, para sailing, golf – course, polo, horse – riding etc .

Service Industries

Workshop, printing press, consultancy service, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, laboratory, air services, cold storage etc.

Construction Industries

Road, bridge, ropeway, railway, trolley bus, tunnel, flying bridge and industrial commercial and residential complex construction and operation.

Small Industries

Industries with a fixed asset between thirty million rupees and one hundred million rupees shall be named as medium industries .

Large Industries

Industries with a fixed assets of more one hundred million rupees shall named as large industries .

Provision and Concession Provided to Industries (Sec-11)

- a. No income tax in excess of twenty percent shall be levied on the income derived from any industries other the ones producing cigarettes, bidi, cigar, chewing tobacco, khaini and industries producing other goods of a similar nature utilizing tobacco as their basic raw materials and alcohol or beer producing industries.
- b. Except of cigarettes, bidi, cigar chewing tobacco, khaini, industries and industries producing other goods of similar nature utilizing tobacco as their

basic raw material. Industries producing alcohol or beer and sawmill and catechus industries any other industry using eighty or more eighty percent of indigenous raw materials in its products and supplying all its manpower from among Nepali citizens shall be granted a rebate at the rate of 10 percent of the income.

- c. Any national priority industry which constructs and operates road, bridge, tunnel, ropeway, flying bridge, and manufacturing and operates trolley bus and tram shall be granted a rebate of fifty percent of the income tax on their income for a period of ten years from the date of operation and other industries as enlisted there in shall be granted a rebate of fifty percent of the income tax on their income for a period of seven years from the date of operation.
- d. Any industry established in any remote, undeveloped and underdeveloped areas other than cigarettes, bidi, cigar, chewing tobacco, khaini industries producing other goods of a similar nature utilizing tobacco as their basic raw materials and industries producing alcohol or beer, shall be granted a rebate of 70%, 80% and 90% of the income tax respectively and 35%, 25% and 15% of the excise duty respectively for a period of ten years from the date of operation.
- e. Fruit based fruit processing and cider and wine industries with a fixed asset of up to ten million established in Mugu, Humla, Jumla, Dolpa, Kalikot, Bajura, Darchula, Bajhang, Achham, Mustang, Manang, Solukhumbu, Sankhuwasava and Taplejung districts shall be entitled to an excise duty exemption for a period of ten years and fruit based alcohol industries shall be entitled to excise duty exemption period of five years. On completion of such exemption period, Government of Nepal may grant excise duty exemption to the fruit based alcohol industries for up to an additional period of three years.
- f. While calculating depreciation on the fixed assets, industries shall be entitled to add one third to the rate of depreciation allowed under the existing income tax laws.
- g. If an industry diversifies itself through reinvestment in the same or any other industry, or expand its installed capacity by 25 percent or more, modernizes its technology or develops ancillary industries, it shall be entitled to a deduction

of 40 percent of new additional fixed assets from its taxable income. Such remission may be deducted on a lump sum or on an installment basis within a period of three years.

- h. Permission shall be granted for a reduction of up to 50 percent from the taxable income for the investment of any industry on process or equipment, which was the objective of controlling population or which may have a minimum effects on the environment. Such remission may be deducted on a lump sum or non installment basis within a period of three years.
- i. Pre-operation costs incurred by any industry in connection with skill development training shall be allowed to be capitalized.
- j. After an industry comes into operation, 10 percent of the gross profit shall be allowed as a deduction against taxable income because of expenses related with technology, product development and efficiency improvement.
- k. An industry donating the amount of up to 5 percent of its gross income to any school, college, university, hospital, religious place and in social activities shall be entitled to be a deduction of such donated amount in course of assessing the taxable income.
- l. If any industry provide direct employment to five hundred or more than five hundred Nepali citizens through out the whole years, it will be, in addition to other facilities, granted an additional income tax rebate at the rate of ten percent for that years.
- m. If any other industries utilizes locally available raw materials, chemicals and packing materials, etc. on which excise duty is already imposed, the excise duty shall be reimbursed to the industry utilizing such raw materials chemicals and packing materials. The amount to be so reimbursed shall be refunded within sixty days after an application to that effect has been duly submitted.
- n. The customs duty and excise duty on raw materials and auxiliary raw materials, etc. utilized by any industry in connection with its products during its production shall be reimbursed based on the quantity of the export.
- o. In cases where any industry sells its products in the Exports Promotion House, the customs duties levied on the raw materials in imported for producing the products so sold as well as the excise duty levied on the products so produced

shall be reimbursed to the concerned industry based on the quantity of sale and export.

- p. If any industry sells its product within the Kingdom in any foreign currency, the excise duty and custom duty on such product and custom duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such products shall be reimbursed.
- q. The customs duties and excise duties on the production materials of intermediate goods to be utilized for the production of exportable industrial goods and excise duty levied on the products shall be reimbursed to the concerned industry producing the intermediate goods, based on the quantity of export.
- r. No tax, fee or charge of any kinds shall be levied on the machine, tool, equipment, machinery and raw material to be employed by and export promotion industry as well as on the products of such industry. Provided that if, for any reason, any products of such industry is required to be sold within the country, tax, fee or charge thereof shall be required to be paid on the bases of the quantity of sale.
- s. Any industry will be entitled, for the purpose of the income tax to deduct the amount of express incurred by it for the long-term benefit provided to its workers and employees including housing, life insurance, health facilities, education and training.
- t. The rate of customs to be levied on the basis of raw materials which are not products in Nepal and are required for the production of industrial machinery or of any other goods may not be more the rate of import duty that may be levied on the import of industrial machinery or ready made goods as is produced with the use of such raw materials.
- u. If any industry producing intermediate goods sells its products to any other industry producing finished goods, the custom duty and excise duty to be levied on such products will be allowed to be adjusted based on the quantity utilized by the industry producing the finished goods. If such a finished goods, producing industry shall be required to have been registered for the purpose of excise duty.

- v. Forest based industry may be made available any forest on a leasehold basis.
- w. No royalty shall be imposed if any industry generates electricity for its use.
- x. Nepal government may, notification published In the Nepal Gazette, grant additional facilities to the Export Promotion Industry, and prescribed industries established in the Export Processing Zone and In the government or non government industrial estate.
- y. On the recommendation of the land with the decision of the Council of Ministers, and by notification published in the Nepal Gazette, additional facilities may be granted to any National Priority Industry or any industry established in Nepal by the way of invention therein.

Cottage Industries

With the exception of cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing other goods of similar nature utilizing tobacco as the basis raw material, alcohol and beer producing industries, handloom, Pedal Loom and Semiautomatic loom. Warping, dyeing and printing, tailoring (Other Readymade Garments), Knitting, hand woollen mat and blanket (Radi, Pakhi), woollen Graments, Carpentry, Wooden Artistic Product, Cane and Bamboo Works, Natural Fiber Products including Silver, Brass, Copper Precious and Semiprecious Stones, Ornaments, Sculptures and Pottery, Honey, Chyuri, Cardamom Processing, Clay or Ceramic Pottery, Leather cutting and Tanning, Rural Tanning and Leather Goods Producing Works, Jute, Sabai Grass, Babio, Choya, Cotton Thread Products, Artistic Products made up of Bones and Horns, Stone Carving, Ceramic Fine Arts, Pauwa, Boutique, Incense Stick (Dhup), Dolls and Toys Industries and cottage industries with the fixed asset of up to two hundred thousand rupees.

Note:

- a. Unless other mentioned specifically, machines of the above mentioned industries should not employ through electric motors of diesel or petrol or crude oil engine more a total of five kilowatt. Power looms shall not be included under Cottage Industries.
- b. Permission shall be required for the establishment of mechanized woollen spinning and mechanized woollen carpet manufacturing.

2.1.7 National Priority Industries

- a. Agro and forestry- based industries.
- b. Engineering industry (Producing agricultural and industrial machine).
- c. Industry manufacturing fuel saving or pollution control devices .
- d. Solid waste processing industry .
- e. Road, bridge, tunnel, ropeway and flying bridge constructing and operating industry and trolley bus and tram manufacturing and operating industry.
- f. Hospital and nursing home (only outside the Kathmandu valley).
- g. Industries producing ayurvedic, homoeopathic and other traditional medicine and industries producing crutch ,seat belt , wheel chair , stretcher and stick and so on to be used in aid of the disabled and orthopedic.
- h. Cold storage installed for the storage of fruits and vegetables (K.C., 2009).

2.1.8 Types of Tax Incentives

2.1.8.1 Objectives of Tax Incentives

Countries grant special tax privileges to attract additional investment. However, if the objective were simply to increase the total stock of all types of investment, the best policy would likely be to adopt an “investor-friendly” general benchmark tax system. Tax incentives are, by definition, departures from the benchmark system that are granted only to those investors or investments that satisfy the prescribed conditions. These special tax privileges may be justified only if they attract investments that are both particularly desirable and that would not be made without such tax benefits. Thus, the first question in designing a tax incentive system is “what types of investment are the incentives intended to attract?”

2.1.8.2 Targeting of Incentives

Incentives may be broadly targeted; for example, all new investment, foreign or domestic, or they may be very narrowly targeted, and designed with one particular proposed investment in mind.

Advantages of and Disadvantages of Targeting: The targeting of incentives serves two important purposes: (I) it identifies the types of investment that governments seek to attract; and (ii) it reduces the cost of incentives because it reduces the number of investors that benefit.

This raises the question of whether a government should treat some types of investment as more desirable or beneficial than other types. Should a government seek to attract and target tax incentives at particular types of investments and not others, or should investment decisions be left solely to market forces? Justifiable doubt exists about the ability of politicians to “pick winners,” particularly in countries making the transition to a market economy. Also, there are some types of investment that, while not prohibited altogether, may not deserve encouragement in the form of tax benefits. Ideally, incentives should be given only for incremental investment; that is, for investments that would not otherwise have occurred but for the tax benefits. Even if that is not possible, targeting likely reduces the number of free riders.

One downside of a selective approach is that the more precisely an incentive is targeted, the greater the distortion it creates. This distortion takes two forms: investment decisions are changed to take advantage of incentives, thus resulting in a misallocation of resources, and competition is distorted between those firms that enjoy the incentives and those that do not.

Discretionary or Automatic Targeting: An initial question is whether the granting of tax incentives should be discretionary, or should be automatic once the prescribed conditions are met. This question is discussed in Section IV. For the reasons given there, it seems advisable to limit discretion. But if qualification for incentives is made largely automatic, it becomes necessary for the qualifying conditions to be spelled out clearly and in detail.

Foreign or Domestic Investment: In developing countries, tax incentives are primarily intended to attract foreign direct investment. An important question is whether tax incentives should be restricted to foreign investors or made available equally to domestic investors. Restricting tax incentives to foreign investors reduces the potential revenue loss. Domestic investors often have little or no real opportunity to invest elsewhere, and therefore do not need special incentives to encourage them to invest at home. However, such a restriction may be objected to on the following grounds. First, discrimination in favor of foreign investors distorts competition. It may restrict the growth of domestic enterprises, or even prevent the development of a domestic sector. It is also likely to cause resentment. Second, discrimination in favor

of foreign investors is often ineffective, because domestic investors may engage in “round-tripping” to disguise domestic investment as coming from foreign sources.

New Investors: The most common form of investment incentive is the tax holiday, which by its nature, is targeted at new investors. The rationale may be that once a new investor has been “captured” its subsequent investment decisions will be made solely according to its business needs and will not be influenced, or will be less influenced, by tax considerations. In practice, restricting incentives to new investors tends to be ineffective and may be counter-productive. An existing investor that plans to expand its operations will often incorporate a new subsidiary or form a related corporation to undertake those operations such that the new entity qualifies for a new tax holiday.

Large Investments: Countries use tax incentives to attract investment -- so there often exists a view of “The More, The Better”. This view is reflected in provisions that restrict the granting of incentives to “large” investments, i.e., those exceeding a stipulated amount. The amount varies greatly from country to country and is sometimes further restricted to particular types of investment. Often, imposing a dollar threshold effectively limits the incentive to foreign investors, without formally discriminating against domestic enterprises. This results because few, if any, domestic investors possess sufficient capital to meet the qualifying threshold.

In principle, it is difficult to justify a qualification based on a particular threshold. It may be that two investments, each of \$3 million, would be more beneficial to the host country than a single investment of \$5 million. Only in very marginal cases is an investor likely to increase the size of its planned investment in order to obtain a tax privilege. Investors are more likely to change how an investment is financed or to inflate the value of the assets contributed to meet qualification requirements.

Sectoral Targeting: Many countries grant preferential tax treatment to certain sectors of the economy, or to certain type of activities. Sectoral targeting has many advantages; (i) it restricts the benefits of the incentives to those types of investment that policy makers consider to be most desirable; and (ii) it also makes it possible to target those sectors that are most likely to be influenced by tax considerations. Among the activities commonly preferred are:

Manufacturing: Several countries restrict investment incentives to manufacturing activities or provide for those activities to receive preferential treatment (e.g., China, Ireland). This may reflect a perception that manufacturing is somehow more valuable than the provision of services, perhaps because of its employment creating potential, or a view that services (with some exceptions) tend to be more market-oriented and therefore less likely to be influenced by tax considerations.

“Pioneer” Industries: Some countries adopt a more sophisticated approach and restrict special investment incentives to certain broadly listed activities or sectors of the economy. Malaysia and Singapore, for example, grant special tax incentives to “pioneer” enterprises. Generally, to be accorded pioneer status, an enterprise must manufacture products that are not already produced domestically, or engage in certain other listed activities that are not being performed by domestic firms and that are considered to be especially beneficial to the host country.

Specific Sectors: Increasingly, countries have introduced incentives narrowly targeted at particular types of investment, especially technologically advanced industries. Other common targets are infrastructure development, film production, tourism, and “offshore” financial centers.

Location Incentives: Many countries provide tax incentives to locate investments in particular areas or regions within the country. Sometimes the incentives are provided by regional or local governments, in competition with other parts of the same country. In other cases, the incentives are offered by the central government, often as part of its regional development policy, to promote investment in less-developed regions of the country or in areas of high unemployment.

Employment Creation: One benefit of foreign direct investment is creating new employment opportunities and, not surprisingly, incentives are frequently provided specifically to encourage job creation. Policy makers could provide for tax incentives for investment in regions of high unemployment, or they could tie the tax incentive directly to employment, with the creation of a stipulated number of new jobs being made a condition for qualifying for the tax holiday or other incentive.

Technology Transfer: Foreign direct investment often results in the transfer of technology. Even critics of tax incentives concede that tax incentives may be useful to

promote activities such as research and development (R&D), if only as a way of correcting market imperfections. Countries attempt to attract technologically-advanced investment in several ways: (i) by targeting incentives at technologically-advanced sectors; (ii) by providing incentives for the acquisition of technologically-advanced equipment; and (iii) by providing incentives for carrying out R&D activities.

Export Promotion: The experience of many developing countries is that export promotion, and the attraction of export-oriented investment, is the quickest and most successful route to economic growth. It is therefore hardly surprising that competition to attract such investment is especially fierce, and investment incentives are frequently targeted at export-oriented production. Additionally, incentives targeted specifically at export-oriented investment tend to be more effective than most other forms of tax incentive, due to the higher degree of mobility of such investment. However, an important factor to be considered is that such incentives may constitute an export subsidy and thus be contrary to WTO rules, (Alex and Eric, 2002).

2.1.8.3 Forms of Tax Incentives

Designing tax incentives requires two basic decisions: - one, determining the types of investment that qualify; two, determining the form of tax incentive to adopt. Tax incentives for investment take a variety of forms. The most commonly employed are:

i. Investment Allowance

Investment allowance is a facility given to encourage the investment in the industries. It provides the facility to deduct the some part of investment from the taxable income of the organization.

ii. Investment Tax Credit

Investment tax credit is also a facility given to prospective industrialists so as to encourage investment. It provides facilities to deduct some part of investment from the tax liability.

iii. Tax Holiday

The investment allowances may be favored by existing industries companies, whereas tax holiday is mainly concerned with new companies in the industrial sector. Such a

relief on tax is applicable on profits earned from new investment and it will automatically terminate after the holiday period, (Poudyal; 1998: 27).

Tax holiday refers to complete or partial exemption of earnings for a specified period of time especially in the beginning. It is exemption type of fiscal incentive. It may be partial or full. Especially in the later years it becomes partial. It is assumed that after the end of holiday period, the firm pays full tax and company is not allowed to transform it into a new company, (Kandel; 2001: 68).

Tax holidays have certain benefits over other types of investment incentives. It becomes more beneficial to those profitable firms, which have no other forms of incomes during tax holiday period. Thus, it concentrates on new business organizations (Kandel; 2001: 69).

So, the tax holiday is full or partial exemption in the tax liability for the organizations (especially for new organizations) to relief the investment cost and to promote them.

iv. Accelerated Depreciation

Accelerated depreciation mean higher depreciation in initial years and gradual decrease in later years; It includes allowing the cost of fixed assets to be depreciated within a shorter period than its service life, whatever is the method of charging depreciation (Kandel; 2001: 67).

Accelerated depreciation helps to reduce the tax burden of the industries in the initial years and shifts it to the later years. This is because the expenditure of the industries in the initial year will more than the actual expenditure, which reduces the taxable income of the organization and ultimately the tax liability of the organization.

v. Set off and Carry Forward of Losses

If there is loss under one source and profit under another source of the same head, the former is set-off against the latter. Similarly, when incomes from different heads are aggregated, the loss under one head of incomes is set-off against the income of another head. If the aggregated amount of a year turns into net loss, this loss can be carried forward in future year(s) for set-off against the income of subsequent years, (Poudyal; 1998: 31).

If there is income in any income year, organization has to pay income tax but if there is loss the organization has to bear all the burden of losses without any compensation,

which discourages investment. Therefore, the income tax provides loss adjustment facility so that the organization having losses in previous income year can get relief by adjusting the losses from the income of the succeeding income year(s). Similarly, the inter-head adjustment facility also provides some relief to the loss of one income head by adjusting the losses in another head's income.

This loss adjustment facility is different in different countries. This facility can be adjusted as per the requirement of incentives. If the investment required for any industry is higher than the chances of losses in initial year will be high so, relatively long carry forward period may be provided in these sectors.

vi. Incentives for Development of Specified Areas

Various tax incentives can be provided to the development of the specified backward or rural areas. The incentives may be in the form of tax rebates, tax holidays, investment allowance, and investment tax credit etc.

Those incentives provided to the rural areas for encouraging investment in those sectors so, the economic status of these areas increases.

vii. Incentives for Research and Development

Research and development is the backbone of economic development of any country. Without research new invention may not be possible. But the research needs lots of amounts and is a higher burden to the researcher. Therefore, a small organization could not invest in research and development due to lack of incentives. Income tax law provides some incentives in the form of deduction facilities to this expenditure and that would help to recoup the entire investment quickly in the earlier years, which encourages the expenditure in research and development.

viii. Incentives to Install Pollution Control Devices

Development of economy is almost impossible without the development of industries but the industries waste pollutes the environment. Organization needs the pollution control devices to reduce the environmental effects but it needs higher amounts of investment. So, to use the pollution control devices certain facilities may be provided. It may be in the form of deduction facilities to this expenditure.

ix. Export Incentives

Some tax facilities may be provided to the organizations that export its product in abroad. The tax incentives may be in the form of tax rebate and tax concession in the income from export, market development allowance, customs and excise relief, export credit, tax exemption in the income from the export of technical know-how etc.

x. Amortization of preliminary Expenses

While commencing a business, high amount may be expended in the form of preliminary expenses, which will have long-term effect in the business such as high amount of advertisement expenditure etc. Tax incentives may provide to write off this type of expenditure within a certain period of time.

xi. Employment Incentives

Generally in underdeveloped and undeveloped countries have the problem of unemployment so; certain tax incentives are provided to the industries that provide employment to the substantial employees. The incentives may be in the form of tax rebates and concessions.

2.1.9 Specimen for Calculation of Income from Industry as per ITA 2058

There is no separate format for calculation of income from industry but the same format for calculation of business income is to be used in calculation of industry.

The summary of the format for calculation of income from industry is given below:

Table 2.1
Computation of Income from Business

Particulars	Amount
Inclusions (Amounts to be included)	
Service fees (Section 7.2.a)	
Amounts derives from the disposal of trading stock (Section 7.2.b)	
Net gain from the disposal of the person's business assets or liabilities (Section 7.2.c)	
Amounts treated as derived from the disposal of depreciable assets (Section 7.2.d)	

<p>Gift received by the person in respect to the business (Section 7.2.e)</p> <p>Amounts derived as consideration for accepting a restriction on the capacity to conduct the business (Section 7.2.f)</p> <p>Amounts derived from investments that are effectively connected with the business (Section 7.2.g)</p> <p>Amounts to be included by reason of change in the accounting system (Section 22.6)</p> <p>Amounts to be included by reason of timing (Section 24.3)</p> <p>Recovered amount of bad debts deducted earlier (Section 25.1)</p> <p>Amounts to be included as per contract completion basis in the case of a long term contract (Section 26.1)</p> <p>Difference of actual interest and interest as per market rate in case of a soft loan (Section 27.1.d)</p> <p>Amounts paid to third person instead of actual payee (Section 29)</p> <p>Amounts derived as compensation (Section 31)</p> <p>Others amounts to be includes in profit and gains</p>	
(A) Total Inclusions	
<p>Deductible Expenses:</p> <p>General deductions (Section 13)</p> <p>Interest (Section 14)</p> <p>Cost of trading stock (Section 15)</p> <p>Repair and improvement costs (Section 16)</p> <p>Pollution control costs (Section 17)</p> <p>Research and development costs (Section 18)</p> <p>Depreciation (Section 19)</p> <p>Deductible reserve (Section 59.1)</p> <p>Other than mentioned above</p>	
(B) Total Deductible Expenses	
<p>Deductible Losses:</p> <p>Unrelieved losses from other business of this year</p> <p>Unrelieved losses from business of previous years</p>	
(C) Total Deductible Losses	
(D) Total Deduction (B+C)	

Income or loss from the business (A-D)(in case there is no loss in this row, this amounts is treated as assessable income from business)	
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Computation of Taxable Income

Assessable income from Employment	
Assessable income from Business	
Assessable income from Investment`	
Total assessable income	
Less: Contribution to recognized retirement funds (as per tax law)	
Less: Donation (as per tax law)	
Taxable income	

2.1.10 Classification of Districts on the Basis of Industrialization

Remote Area

1. Darchula	2. Bajhang	3. Bajura	4. Humla
5. Sankhuwasabha	6. Jumla	7. Kalikot	8. Dolpa
9. Mustang	10. Manang	11. Solukhumbu	12. Mugu
13. Khotang	14. Bhojpur	15. Achham	16. Dailekh
17. Jajarkot	18. Rukum	19. Myagdi	
20. Okhaldhunga	21. Terhathum	22. Ramechhap	

Undeveloped Area

1. Taplejung	2. Rolpa	3. Baitadi	4. Rasuwa
5. Gulmi	6. Parwat	7. Dadeldhunga	8. Pyuthan
9. Doti	10. Salyan	11. Panchthar	12. Baglung
13. Sindhupalanchowk			

Under Developed Area

1. Kailali	2. Surkhet	3. Arghakhanchi	4. Palpa
5. Syanga	6. Dhading	7. Lamjung	8. Tanhu
9. Gorkha	10. Sinhdhuli	11. Udayapur	12. Dhankutt
13. Ilam	14. Kanchpur	15. Bardia	16. Dang
17. Nuwakot	18. Kavrepalanchowk	19. Dolkha	

2.2 Review of Books

Adhikari (2003) discussed the legal provision of new Income tax Act, 2002. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of the income tax. Agreement and protocol relating to avoidance of double taxation and prevention of fiscal evasion with respect to taxes in income between different countries had also in his book.

Aryal and Poudel (2008) wrote a book entitled , "Taxation in Nepal". They explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.S. It had been divided in to three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively, the book also included proper bibliography and adequate appendix where various income tax, house rent and vat related forms, schedules and format had been described .

KC (2009) wrote a book named "Tax laws and Tax Planning: Theory and Practice". It includes calculation of tax liability of both individual and entity. It explicitly explains inclusions and exclusions from business and investment income, deduction allowed in calculation of taxable income, basic timing and accounting issues and characterization of income. This book explains proper tax payer responsible for reporting methods of taxation of income and need of compliance.

Kandel (2009) criticized the ITA 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend and capital gain withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issue he raised in his article. He further criticized the act for the provision of income tax from export as 0.5% of total export because it is not good choice of income tax base. Lastly, he had recommended to mobilize additional domestic resources through

taxation, tax structure should be redesigned in order to increase the role of direct tax, income tax should be reformed in Nepal etc.

Dhakal (2016) has written a book entitled, “Income Tax and House and Compound Tax Law Practice”. He has described the provision income tax in Nepal. This book described about income tax in Nepal, house and compound tax and VAT etc.

2.4 Review of Research Report and Articles

United Nation (1997) published a journal on public finance entitled, “*Guidelines for Improving Tax Administration in Developing Countries*”. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory. Function of tax administration are identification and registration of tax payer’s education, information provider and assistance etc. The study had explained these two functions and the study had recommended some valuable suggestion to the developing countries.

Pant (2004) wrote a article entitled, “*Problem in Tax Administration and Their Remedies*” published in journal of finance and development ‘Rajaswa, 2004, April Vol.1. He had comprehensively explained about the problem and their remedies related with tax revenue and major types of practical problems and challenges, in tax administration. He had maintained in his article where showing limited amount of transaction showing low selling price, less of issuing in taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complicity in implementation and lace of co-ordination between inland revenue department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestion to solve the problems and to overcome the challenges. They were statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, co-ordination between Inland Revenue office with various entities of HMG, revenue investigation and its related unit should play the important role.

Koirala (2004) has studied entitled “*Contribution of Employment Income to Income Tax Revenue of Nepal*”. Mainly he has focused on the income of employment.

Problem he has defined in collecting tax are rules and regulation of the income tax is complicated, employees faced problem of negligence of administrators mental pinch, unnecessary delays and harassment for getting tax clearance certificate, not well response etc. he recommends that resources mobilization through direct taxation. TDS helps to increase income tax share in tax and direct tax revenue providing knowledge to employees about taxation there should be standard deduction such as transport expenses, house rent, education expenses etc. For allowed exemption limit on individual and couple, behaviors make to collect more tax revenue from employees.

As per the empirical studies done in various countries the conclusion that among different type of tax incentives investment allowance or investment tax credit and accumulated depreciation superior to other types of tax incentives , tax holiday is the most inferior type of tax incentives which causes revenue loss without enhancing the investment environment . Meanwhile ,most of the researchers has opposed the tax holiday system both within Nepal and outside Nepal.

He further added that the survey of the studies indicate that accelerated depreciation system has positive impact on investment. The work of reducing tax rate, specially system followed after 1990's to such lowest rate was not a proper decision. That is why if Nepal wants to go tax incentives again, she should adopt investment allowance or investment tax credit not the full tax holiday in future.

Revenue consultation report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayers and tax administration rather than the informal relation. This report suggested to widen the income tax base by including all kind of taxpayers and income and to find out the taxpayers of new sector. For this the report to make the not more transparent and dear in order to attract foreign a domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate.

Bekker (2014) has written an article on *"Tax Planning Strategies for Manufacturing Companies"*. In the article Bekker mentioned one thing a number of professionals and politicians agree on is that the research and development (R&D) provisions help bolster the U.S economy. The tax break helps companies reduce the cost of staying

technologically competitive, and, at the same time, may help to create and sustain job growth. However, funding the tax break has proven difficult year after year. As such, the credit is still not a permanent fixture in the tax code. Instead, Congress has opted to temporarily extend the benefit 15 times since 1981. The decision to extend it again is at a standstill until negotiations conclude on how long that extension will last and how to offset the perceived tax revenue decrease.

In general, the research and development tax credit is equal to a percentage of qualified research expenses (QREs) for the current tax year. QREs are broadly defined as taxable wages paid for the performance of qualified research, amounts paid for supplies used in development efforts and payments made to third parties for design and testing. If money is being spent to find ways to make a product faster, cheaper, or more efficient, there is likely opportunity for a tax credit under the R&D rules. Even if the changes to the product are merely incremental, the expenses could still qualify for credit.

Some limitations apply, but generally, the credit allows for a dollar-for-dollar reduction in tax liability.

Coelho (2016) has written an article on "*Taxes and Incentives.*" Coelho has mentioned that a manufacturer is allowed a 4% tax credit against the Rhode Island corporate income tax on buildings and structural components, as well as machinery and equipment, which are owned or leased and are principally used in the production process (including storage). Property principally used for administration and distribution purposes is not eligible. The investment tax credit may not reduce the taxpayer's liability below the minimum business tax. Unused credits may be carried forward for up to seven years.

High-performance manufacturers are allowed a 10% investment tax credit against their corporate tax on the cost of qualified lease amounts for tangible personal property or other tangible property, as well as buildings and structural components owned, leased to own or leased for at least 20 years. Under current law, credits are transferable between related entities. Unused credits may be carried forward up to 15 years for biotechnology firms and up to seven years for other types of manufacturers.

Biotechnology-related firms wishing to use the Investment Tax Credit beyond seven years must, for each tax year, maintain an average quarterly employment level that is

at least 9.5% above the level maintained in the fourth year of the initial credit and pay an average quarterly median wage that is at least equal to the quarterly median wage for the previous three calendar years.

2.5 Review of Theses

Pant (1996) had presented the thesis entitled, "*A study on Income Tax Management in Nepal*". His main objectives of research were to find out the share of income tax to government revenue.

His main objectives are:

-) to review the income tax system in Nepal,
-) to identify the problem of income tax management.

His research was best upon secondary as well as primary data. The primary data was collected within Kathmandu through interview, questionnaire etc.

His major findings are as follows:

-) He had concluded that income was the major source of internal source mobilization, the income tax system was not efficient and income tax assessment was not efficient.
-) Evasion of income tax was major constraint for research mobilization.
-) He also added that corporate tax was found high and exemption limit was not sufficient.
-) Finally he had recommended that income tax net should be widened assessment procedure must be improved and income from agriculture and capital gain should be taxed.

Poudyal (1998) had submitted a thesis entitled "*Corporate Tax Planning in Nepal*." This thesis report was aimed to examine the implications of tax factors in strategic planning, project planning and operational planning in Nepalese companies.

His main objective is:

-) to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.

His major findings are follows:

-) He had found that majority (90%) of the companies (sample size of the study) considered tax factors while selecting the limit 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 large company and (+0.12) in medium size companies.
-) As against this, in large companies, there was a negative correlation (-0.2), which shows 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 company should set up separate tax section to get maximum benefit of provisions, provided by tax law.
-) However tax assessment under the best judgment blocked the application of tax planning in corporate planning. He had recommended that tax incentives should be given to non industrial companies too and tax rate should be differentiated of resident and nonresident companies.

Kandel (2000) also presented the thesis entitle, "*Corporate Tax System and Investment Behavior in Nepal*". He undertook the research work to find out the problems relating to corporate tax, which blocks the development of the private investments. The main objective of the study were to evaluate the corporate tax system in general.

His main objective is:

-) to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.

His major findings are as follows:

-) He showed the relationship of private investment with average effective tax rate, marginal effective tax rate and tax incentives in Nepal.
-) He found that it's for debt financed project are almost negative i.e.-17% and positive for equity financed project and debt equity project by 27% and 19% respectively.
-) He had also found the impact of inflation. According to him ,the statutory tax rate deduction had impact on private investments by 60%to 20%. In this regard, he had showed the adjusted value 0.87 at 5%level of significance.

-) He had concluded that the statutory tax rate was in moderate level under the financing between inflation rate and effective tax burden in Nepal was negative.

Lamsal (2012) has also presented a thesis entitled, “*A Study on Contribution of Income Tax Government Revenue*”. His research had mainly focused on the removing and controlling income tax evasion for better source mobilization. Mr. Lamsal conducted that research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were from primary sources. Primary data were collected through opinion survey, field visit interviews. Simple statistical analysis such as average and percentage were used as for data analyzing, tools, graphs, charts and table were use to interpret visually the finding of the research. As his main objective was to analyze the impact of income tax evasion in government revenue of Nepal.

His main objectives are:

-) to identify the ways and causes of income tax evasion,
-) to estimate the volume and tendency of income tax evasion in small trade sector and to examine the role of income tax in utilizing the resources in Nepal.

His major findings are as follows:

-) From the research, he had concluded that there was wide spread evasion of income tax in Nepal and income tax is a suitable means for raising domestic resources.
-) Controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evades, compulsory maintenance of accounts etc .

Pradhan (2013), has conducted a thesis entitled “*Contribution of Income Tax on Total Revenue.*” His study was basically concerned with historical background, contribution of income tax to the public revenue.

His main objectives are as follows:

-) Contribution of income tax to the public revenue,
-) Contribution of Nepal Telecommunication (NTC) to income tax,
-) Effectiveness of income tax collection. Especially, her study had focused on the study on Nepal Telecommunication Corporation.

His major findings are as follows:

-) She had found the contribution of income tax from public enterprises in Nepal was not significance due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC had been contributing effectively to total tax revenue.
-) Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh.
-) Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue were 2.37 percent, 15.60 percent and 1.93 percent in her study period. Her suggestions about income tax system were clear cut provisions, discretionary power of tax officers should curtailed, assessment and collection provision, should be made clear and simple, provision of reward, prize, incentives should introduce to encourage taxpayers today voluntarily, compulsory provision of auditing etc. for the improvement for the improvement of income tax administration in Nepal.
-) Promotion and reward to active efficient and honest tax preserved, tax education to taxpayers, strict acting against corruption, reduction of delays in tax assessment.

Devkota (2014) has carried out a study on "Impact of Special Provision on Manufacturing Industries Under Income Tax Act, 2058." Both primary and Secondary data have used in the study. The main objective of the study is to analyze the impact of special provisions in manufacturing industries provided by Income Tax Act 2058. Following are the other objectives of the study.

-) To analyze the income tax structure of Nepal.
-) To analyze the contribution of income tax in total revenue, tax revenue and direct tax.
-) To examine the impact of special facilities provided to manufacturing industries by ITA 2058.

Major findings of the study were as follows:

-) The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income tax has appeared one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired developmental objective of Nepal.

-) There are no provisions of excess of depreciation facility for the natural person under the ITA 2058. In the view of necessity of this facility, most of respondents review. Recently there is no need of this facility because whatever is granted is not fully utilized yet.
-) The classification made and the facilities provided by the Act may encourage the entrepreneur to operate industries in backward area and helps to raise the economy of this area as well as nation.
-) In the opinion survey, most of the respondents have been satisfied with the concession rate provided by the Act. However, some respondents suggest for increasing this rate to 50% for remote area.
-) The provision of the excess depreciation facility to special industry is justifiable that reduces the tax liabilities.

Shakya (2015) has presented a dissertation entitled, “*A Study on Income Tax Act, 2002*”. She has studied the income tax act as a whole however; she has not studied the tax incentives and facilities to industry.

Major findings of the study are as follows:

-) The income tax is the suitable means of government revenue and its contribution is in third place, for economic development and it should have been mobilized.
-) Income tax has composed by six types of taxes and the share of individuals is half of the total income tax revenue.
-) To effective implementation of income tax act, to give tax education, to compulsion the auditing, to plugging the loopholes existed in the tax act, to provided incentives to the tax administrators, to allow the PCC cost wholly etc.

Khadka (2015) has carried out a study on “*Responsiveness and Productive of Nepalese Tax System*” for the period 2005/06 to 2017/18. The main objective of the study was to find out the responsiveness and productive of Nepalese tax system.

The major findings of the study were as follows:

-) During the study period, he found the elasticity and buoyancy coefficient of total tax to GDP were 0.80 and 1.56 respectively.
-) This implies that 1percent change in GDP will bring out 0.80 percent change in total tax revenue due to the automatic growth and 0.67(1.56-0.80) percent due to discretionary changes.

Nepal (2015) has carried out a study on “*Structure and Responsiveness of Nepal’s Tax System*” and examined Nepal’s overall tax structure measured responsiveness and productivity of tax yields, identified major problems of Nepalese taxation and provided appropriate tax policy recommendation.

Major findings of the study were as follows:

-) The study indicates that the overall elasticity of total revenue on Nepal’s tax structure for the study period is 0.64 elasticity coefficient for tax revenue, non-tax revenue, direct tax, indirect tax are: 0.511, 1.135, 0.135, 0.614 and 0.4756 respectively.
-) As the elasticity of selected group of taxes other than non-tax revenue are less than unity, the tax system as a whole could not be considered elastic and responsive to national income.
-) Elasticity of indirect taxes (0.61) is almost four times then that of direct tax (0.14), which is, the greater challenges for the Nepalese Fiscal authorities who wants to increase the share of direct taxes.
-) We are mostly depending upon indirect tax, which is regressive in nature. Similarly the overall buoyancy of total revenue is 1.209 and that of total tax revenue, non-tax revenue, direct tax, indirect tax and income tax are 1.163, 1.1415, 1.001, 1.210 and 1.197 respectively. This high buoyancy and less elastic of total tax revenue is attributed to the additional government effort to raise the tax revenue.
-) On the basis of the suggested recommendation and earlier analysis, he developed a tax mechanism model which gives the summary of the overall tax mechanism in an economy.

Shakya (2017) has carried out a study entitled “*Structure and responsiveness of Nepalese Tax System*” has tried to identify and evaluate the tax structure, responsiveness and productivity of Nepalese tax system.

The major findings of the study were as follows:

-) An important objective to compare the responsiveness and productivity of Nepalese tax system before and after the restoration of democracy.
-) Using SAHOTA method for data adjustment, it was found the elasticity coefficient of total tax revenue of whole period is 0.618 and period (i) 0.587 and period (ii) 0.669. At the same time the buoyancy coefficient of the whole period is 1.140 and period (i) 1.148 and period (ii) 1.128.

Timsina (2018) has carried out a study on “*Tax Elasticity and Buoyancy in Nepal: A Revisit*” and studied elasticity and buoyancy coefficients during the sample period 2007 to 2016 in which she took the principles objective of the study as to introduce the concept of elasticity of tax, to estimate the elasticity and buoyancy of tax in Nepal for the period, to seek the difference between buoyancy and elasticity of tax in Nepal, -to investigate whether the results obtained through traditional approach and the partitioning approach are similar or different and, -to ensure whether or not the tax system in Nepal is elastic.

The major findings of the study were as follows:

-) It was that elasticity coefficient of total revenue, total tax revenue, excise duties, import duties, income tax, and VAT are 0.59, 0.51, 0.49, 0.54, 0.41 and 0.55 respectively and buoyancy coefficient are 1.14, 1.12, 0.98, 1.05, 1.37 and 1.15 respectively.
-) The time series analysis of tax elasticity and buoyancy reveals inelastic tax structure in Nepal for the period 2016 to 2020. Taxes are not responsive to change in income with most elasticity coefficient reporting below unity.

2.6 Research Gap

During the study period, there were found many researches relating to tax laws, provisions, administration aspects and structure of tax. Most of the researches have indicated the efficiency of tax administration, widespread tax evasion. No attention is paid on a particular problem and reforms provided under Income Tax Act 2058. Many of them have various problem as their research objectives and no thoroughly study on a particular subject problem is done except few of the research work. The researcher has found no more study conducted in the impact of the special provision to manufacturing industries under ITA 2058. So, this study has been undertaken analytically and intensively to analyze the impact of tax provisions on the growth and development of manufacturing industries. Hence, this study will be fruitful to those interested persons, students, scholars, stakeholder, civil society, teachers, businessmen and government for academically as well as policy perspective.

CHAPTER -III

RESEARCH METHODOLOGY

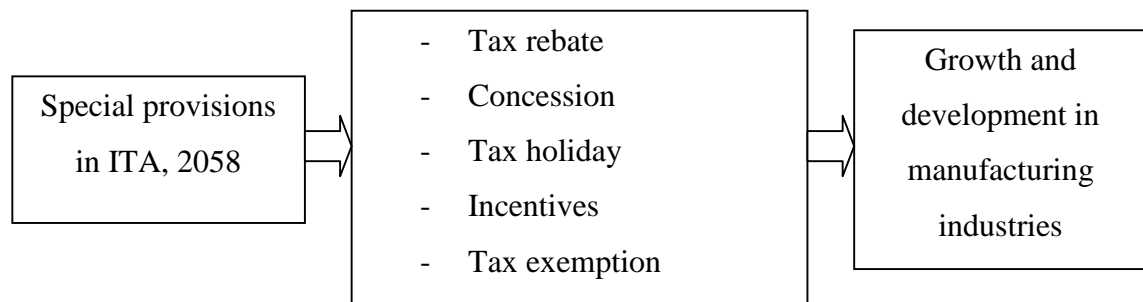
Research methodology refers to the various sequential steps (along with rational of each such steps) to be adopted by the researcher in studying a problem with certain objects in view. The related topics are discussed separately as follows:

3.1 Research Design

Research design is the sketch of examination. It is the configuration and strategy about how to conduct the research. In this study, both descriptive as well as analytical research have been used. For this purpose, primary as well as secondary data were analyzed and interpreted in descriptive and analytical way. Questionnaires were used for primary data collection and publications were used as secondary data for research purpose.

3.2 Conceptual Framework

Conceptual framework is outline of the research. It represents the whole characteristics of research.



A tax refund or tax rebate is a refund on taxes when the tax liability is less than the taxes paid. Complete or partial exemptions from taxes enjoyed by legal and physical persons. A tax holiday is a government incentive program that offers a tax reduction or elimination to businesses. A tax incentive is a government measure that is intended to encourage individuals and businesses to spend money or to save money by reducing the amount of tax that they have to pay. Tax exemption is the monetary exemption of persons, property, income, or transactions from taxes that would otherwise be levied on them.

In the mentioned tax facilities, special provisions to manufacturing industries under ITA, 2058 are reflected which results the growth and development in manufacturing industries.

3.3 Population and Sample

Tax administrators were selected from IRD Lazimpat, tax experts (The teachers of Tax System and Tax Planning who were selected from Shanker Dev Campus, Nepal Commerce Campus and Saraswoti Campus) and taxpayers, who were from Balaju Industrial Estate were considered as the total population. Out of them, 20 tax administrators, 20 tax experts and 20 of taxpayers were requested to fill the questionnaire for this 20 each has been used as sample size. Samples were selected using convenience sampling method. The total respondents have been divided into three different groups. The group of respondents and sample size has been shown in the following table.

Table 3.1
Group of Respondent and Sample Size

S.N.	Group of Respondents	Sample Size
1	Tax Administrator	20
2	Tax Expert	20
3	Tax Payers	20
Total		60

3.4 Sampling Procedures

Convenient sampling method was used to select the target and sample population. First of all, researcher visited Inland Revenue Department and choose 20 tax administrators using convenient sampling method. Then after, 20 tax experts from different colleges were selected. Finally, researcher selected 20 taxpayers from Balaju Industrial Estate using convenient sampling method.

3.5 Nature and Sources of Data

Both primary and Secondary data have used in the study . To achieve the possible and useful data as for available have been collected .The major source of are as follows.

a) Primary data

These data have been collected with in Kathmandu valley from those respondents who are representing as employees. Tax experts and tax administrators in different

sectors. To know the opinion of respondents a structured questionnaire have been distributed and information have been collected through self structured questionnaire information dialogue discussion and direct.

b) Secondary data

The secondary data have been collected from books, journals, newspaper, report etc. The major source of secondary data have taken as follows;

1. Official website of Inland Revenue Department. www.ird.gov.np
2. Official website of Ministry of Finance. www.mof.gov.np.
3. Annual report of Inland Revenue Department ,Ministry Finance
4. Economic surveys and budget speeches ministry of Finance.
5. Book related to income tax.
6. Various magazines, newspaper, Journals etc.

3.6 Data Collection Procedure

Various numerical data and information have been collected as per the objectives of the study and research question, firstly laws, rules, regulations and policies related to the provisional for mfg. industries have been studied to get more information. Secondly different libraries such as FNCCI, NRB were consulted. Thirdly, the numerical data have been collected for the publication of annual reports of inland revenue department of Nepal, Economic Bulletin of NRB economic survey of ministry of finance, publication of security boards have been also been consulted. For secondary data published reports of organization have been mainly used.

3.7 Data Processing, Procedure and Analysis Tools

Information collected through the questionnaire was on raw form. To meet the objective of this study, they are checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have been shown in annexes. Homogenous data are sorted in one table and various tables are prepared in under stable manner. Data have been analyzed and interpreted by using different types of analytical tools.

CHAPTER-IV

RESULTS AND DISCUSSION

This chapter is devoted to the presentation and analysis of the income tax structure and impacts of “Special Provision to manufacturing industries under ITA 2058”. To achieve the stated objectives of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information have been analyzed. To meet the desired objective, this data presentation and analysis chapter deals with the presentation and analysis of data collected from the primary as well as secondary sources. Primary data collection has been conducted by the means of scheduled questionnaires and economic survey has been the main sources of secondary data. The response found from the respondents has been tabulated first and analysed according to objectives. Test of hypothesis, simple average and simple percentage method have been used as statistical tools to analyze the data.

4.1 Tax Structure of Nepal

Modern economic planning of Nepal had started with the initiation of first economic planning of 1956. Since then, taxes have been used for the achievement of national economic goals. So, tax play vital role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes.

4.1.1 Structure of Nepalese Government Revenue

Every Government requires sufficient revenue to launch development programs, handle daily administration, maintain peace and security and launch many other public welfare programs. The Government collects the required revenue from different sources.

The principal sources of Nepalese Government revenue are classified into two sources, namely tax revenue and non-tax revenue. 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 tax pays 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 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 a part of Government revenue, which is not related to tax, it includes various receipts from Government entities such as duties and fees, fines, forfeiture, dividend, interest, royalty, sale of Government properties principal repayments and other sundry receipts.

Customs duty is realized from exports imports, Indian excise refunds, agricultural reforms duties and other miscellaneous receipts are included into the 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 individual and on other incomes. Income taxes directly imposed on the gain or net profit of individual and organizations. Income tax is also a composition of tax on profit or income of public enterprises, semi-public enterprises, private corporate bodies are remuneration of individuals. The structure of Government revenue in Nepal is presented in table 4.1

Table 4.1
Structure of Government Revenue

(Rupees in million)

Revenue head	FY 2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		Average (%)
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	
Customs	16707.6	19.05	21062.4	19.57	26792.9	18.67	35150.8	19.53	35711.6	17.87	40905.97	16.74	16.74
Excise	9343.2	10.65	11189.6	10.40	16220.9	11.30	24306.1	13.51	26542.9	13.28	30016.14	12.28	12.28
Sales Tax/VAT	26095.6	29.75	29815.7	27.70	39700.9	27.67	54920.9	30.52	61663.6	30.86	70930.44	29.03	29.03
House and Land tax	2253.50	2.57	2940.7	2.73	5223.3	3.64	5511.1	3.06	3572.5	1.79	3559.02	1.46	1.46
Property tax	995	1.13	1069.2	0.993	1850	1.29	2417.9	1.34	3022.6	1.51	3588.47	1.47	1.47
Income tax	15731.8	17.94	19077.9	17.73	27247.4	18.99	33821	18.80	42059.9	21.05	51303.23	20.99	20.99
Others	0	0	0	-	16.5	0.011	167.1	0.093	204.5	0.11	11419.34	4.67	4.67
Total Tax Revenue (A)	71126.7	81.09	85155.5	79.12	117051.9	81.58	156294.9	86.86	172777.6	86.47	211722.61	86.64	86.64
Non- Tax Revenue (B)	16585.4	18.91	22467	20.88	26422.6	18.42	23650.9	13.14	27041.1	13.53	326514.95	133.61	133.61
Total Govt. Revenue (A+B)	87712.10	100	107622.5	100	143474.5	100	179945.8	100	199818.7	100	244374.09	100	100

Source: Economy survey, 2074/75, MOF.

Table 4.1 shows the composition of Nepalese Government revenue from 2012/13 to the fiscal year 2017/18. In the fiscal year 2012/13, the share of custom duty to the total Government revenue was 19.05%. Custom duty had taken moderate ratio of Government revenue at that time. In the fiscal year 2013/14 it was increase to 19.57% the trend of realization of custom duty is increasing trend. The percentage of custom duty is increasing trend. The percentage of custom duty for the fiscal year 2014/15 and 2015/16 is 18.67% and 19.53% respectively. But in fiscal year 2016/17 fit is decreased to 17.87% which is 1.66% less than fiscal year 2015/16.

Excise is also a source of Government revenue. In fiscal year 2012/13, the ratio of excise to total Government revenue was 10.65% and it was decreased to 10.40% in fiscal year 2013/14. In fiscal year 2014/15 the contribution of excise in the total revenue of Government of Nepal was 11.30%, the percentage of excise for the fiscal year 2014/15 and 2015/16 & 2017/18 are 13.51%, 13.28%, 12.28% respectively. So it is known that the realization of excise duty fluctuating trend.

The value added tax, previously called as a sales tax has been slightly fluctuating over the study period. In fiscal year 2012/13, VAT has contributed 29.75% to the total revenue of Nepalese Government. It had taken second position in beginning but now a days it take first position in contribution in total revenue of Government. The percentage of VAT for fiscal year 2013/14 and 2014/15 are 27.70% and 27.67% respectively. After the period the trend was increased. In fiscal year 2015/16 it was 30.52% which was increase by 2.85% compare them the fiscal year 2014/15. But fiscal year 2017/18 it was increased to 29.03%.

House and land registration tax is also a source of government revenue which is a direct tax. It includes house or rent fees. House and rent fees have also been constant over the study period. The share of this tax was 2.57% in the fiscal year 2012/13, which was constant to 2.73% in fiscal year 2013/14, and it was 3.64% in 2014/15. The contribution of house and land tax in the total revenue of government are 3.06%, 1.79% and 1.46% for the fiscal year 2015/16 to 2017/18 respectively, so it is slightly fluctuating over study period.

In fiscal year 2012/13, 81.09% of total revenue was collected from various sources to tax revenue. It was decrease to 79.12% in the fiscal year 2013/14. But it was increase to 81.58% in the fiscal year 2014/15, again it was increase to 86.86% in next fiscal year. The ratio of tax revenue to total revenue was decreased to 86.64% in fiscal year 2017/18.

From the analysis, it was seemed that 83.024% of total government revenue is collected from tax revenues and 16.976% 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 4.2 below:

Table 4.2
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
2012/13	87712.1	71126.7	81.09	16585.4	18.91
2013/14	107622.5	85155.5	79.12	22467	20.88
2014/15	143474.5	117051.9	81.58	26422.6	18.42
2015/16	179945.8	156294.9	86.86	23650.9	13.14
2016/17	199818.7	172778	86.47	27041.1	13.53
2017/18	244374.09	211722.61	86.64	32651.49	13.36
Average collection			83.63		16.37

Source: Economy survey, 2074/75, MOF.

The table 4.2 shows the contribution made by tax revenue and non-tax revenue to total revenue. In the fiscal year 2012/13, tax revenue was realized 81.09% of total revenue. It was decreased to 79.12% in fiscal year 2013/14. It was increased to 81.58% in the fiscal year 2014/15. In fiscal year 2015/16, tax revenue was realized 86.86% which is highest realization ratio as compared to another fiscal year till 2016/17, which was 0.39% point higher than the fiscal year 2016/17.

Tax revenue and non-tax revenue realization rate has an inverse relation. That means when highest ratio of tax revenue released, ratio of non-tax revenue decreased. In the fiscal year 2012/13 the ratio of non-tax revenue to total revenue was 18.91% and it was increased to 20.88% in fiscal year 2013/14. The realization rate decreased to 18.42% in fiscal year 2014/15. In fiscal year 2015/16 the contribution of non-tax

revenue was slightly decreased by 5.28% and reach to 13.14%. Total non-tax realized in fiscal year 2016/17 was 13.53%.

The analysis shows that major part of Nepalese Government revenue is collected from tax revenue. It occupies 83.024% of total revenue in average. Tax revenue is slightly fluctuating from the beginning to till now. It's 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 16.976% 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 are presented in table 4.3 below.

Table 4.3
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 to Total Revenue	% of Direct Tax to Total Tax Revenue
2012/13	87712.10	71126.7	18980.3	21.63	26.68
2013/14	107622.80	85155.5	23087.7	21.45	27.11
2014/15	143474.5	117051.9	34320.7	23.92	29.32
2015/16	179945.8	156294.9	41750	23.20	26.71
2016/17	199818.70	172777.6	48655.10	24.35	28.16
2017/18	244374.09	211772.61	55323.77	22.64	26.12
Average collection				22.78	26.86

Source: Economy survey, 2074/75, MOF.

The data reveal the ratio of direct tax to total revenue from the fiscal year 2012/13 to fiscal year 2016/17. In the fiscal year 2012/13, the ratio of direct tax to total revenue was 21.63% and the ratio to total tax revenue was 26.68%. The ratio of direct tax to total revenue was decreased to 21.45% and the ratio of direct tax to total tax revenue was increased to 27.11% in fiscal year 2013/14.

The tax realization rate of direct tax was in fluctuating trend during the study period. This ratio was 21.63% on the direct tax to total revenue and 26.68% on direct tax to total tax revenue in fiscal year 2012/13.

From the analysis, it is concluded that ratio of direct tax to total revenue has a increasing trend and the ratio of direct tax to total 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 corporation sector, 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.

Table 4.4
Structure of Income Tax Revenue in Nepal

(Rupees in million)

FY Particular	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		Aver age (%)
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	
Tax from public enterprise	1019.7	6.48	204.6	1.07	959.10	3.52	1131.8	3.35	1281.8	3.04	16722.83	32.60	32.6
Private corporate bodies	5717.1	36.34	7186.5	37.67	9425.10	34.60	12234.4	36.18	13965.5	33.20	14771.61	28.79	28.79
Tax from individual	5234.40	33.27	6381.2	33.44	9877.5	36.25	11039.9	32.64	13627.4	32.40	6118.22	11.93	11.93
Remuneration tax	2007.9	12.76	2451.0	12.85	3195.6	11.73	4413.1	13.04	5863.3	13.94	6174.67	12.04	12.04
Interest tax	1054.9	6.7	1087.9	5.7	1685.10	6.18	2466.4	7.3	4130.5	9.82	5382.98	10.49	10.49
Other tax	697.8	4.45	1766.6	9.27	2105.0	7.72	2535.4	7.49	3191.6	7.6	390.09	0.76	0.76
Total income tax	15731.8	100	19077.9	100	27247.4	100	33821	100	42060	100	51303.23	100	100

Source: Economy survey, 2074/75, MOF.

Table 4.4 shows the trend of income tax realization from various sources for last six years. The data reveals that the total income tax realized in the fiscal year 2012/13 was amounting to Rs. 15731.8 millions out of which 6.48% was realized from public limited and 36.341% was realized from private limited companies. In the same fiscal year 33.40% of income was realized from individual tax and 12.76% from remuneration income. The contribution of interest was 6.7% in fiscal year 2012/13.

In fiscal year 2013/14, the contribution of Government enterprises has decreased to 1.07%. And it was increased 3.52% in next fiscal year 2014/15. The percentage of Government enterprise has decreased 3.35% in fiscal year 2015/16. It has contributed 32.60% of the total tax income in fiscal year 2017/18.

Private limited companies are also a corporate tax payer of Nepal. The corporate tax paid by private limited companies was 36.34% in fiscal year 2012/13. In fiscal year 2013/14 the tax realized by private limited companies are increased to 37.67%. In fiscal year 2014/15 the contribution of private limited companies are increased to 34.60% and the ratio was decreased to 28.79% in fiscal year 2017/18.

Remuneration income is also a source of income tax payer in Nepal. The contribution of remuneration in fiscal year 2012/13 was 12.76% which is slightly decreased than previous year. In fiscal year 2013/14 the share of remuneration was increased to 12.85%, which was decreased to 11.73% in fiscal year 2014/15. Again the contribution of remuneration was increased to 13.04% in fiscal year 2015/16 and in fiscal year 2017/18 it was 12.04% which was slightly more than previous year.

Individual are also major source of income to Nepal Government. In fiscal year 2012/13 the contribution of individual was 33.27%. The contribution of individual was increased to 33.44% in fiscal year 2013/14. The share of individually was slightly increased to 36.25% in fiscal year 2014/15. Again the tax realization of individual was decreased to 32.64% in fiscal year 2015/16. And it was slightly decreased and reached to 11.93% in fiscal year 2017/18.

Interest tax also includes in income tax. It has contributed 5% to 10% amount to the total income tax within the whole study periods. The least amount 5.7% was realized in fiscal year 2013/14 and the highest 10.49% was realized in fiscal year 2017/18.

Other tax also contributes to income tax and other tax contribution are 4.45%, 9.27%, 7.72%, 7.49%, 7.6% and 0.76% in fiscal year 2012/13 to 2017/18 respectively.

The analysis shows that income tax has been collected from various sources. Some of them have shown slightly up and down. Corporation was the highest contributor to the total revenue. Individual tax payer has contributed second highest contribution.

4.2 Result of Empirical Investigation

On the opinion survey, research has conducted to find the different aspects towards the ITA 2058 and its special provision for the manufacturing industries. Scheduled questionnaire has been distributed and collected the opinion of respondents. The view of the 60 respondents associated with tax administrators, tax experts and tax payers has been analyzed. The questionnaire has focused on special facilities on manufacturing industries under ITA 2058, necessity of facilities and needs of its increment, impacts of ITA 2058 on the manufacturing sector, rebate rate and its suitability provision of excess depreciation facility, contribution of income tax on government revenue etc.

The respondents have divided into three groups. Following table shows the groups and number of respondents:

Table: 4.5
Group of Respondents and Number from Each Group

S.N.	Group of respondents	Sample size
1	Tax administrator	20
2	Tax expert	20
3	Tax payers	20
	Total	60

Source: Opinion survey, 2019.

The questionnaire was either asked for yes/no response or asked for ranking of choice according to their preference. Their first choice is most important and last is least important. Weight is assigned according to number of alternatives to their choice for analysis purpose. The choice with highest score of preference is ranked as the most important choice and vice versa.

The finding from this survey has been analyzed below:

4.2.1 Income Tax as an Important Source of Government Revenue

To know the view of respondents whether the income tax is an important source of government revenue a question was asked, “Do you think that the income tax is an important source of collecting government revenue.” The responses found towards the question are tabulated as follows:

Table: 4.6
Tax as an Important Source of Government Revenue

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	19	95	1	5	20	100
Tax experts	20	100	0	0	20	100
Tax payers	20	100	0	0	20	100
Total	59	98	1	2	60	100

Source: Opinion survey, 2019.

From this opinion survey, it has found that 95% of tax administrators and 100% tax experts and tax payers are in favour of the income tax is an important sources of government revenue. Only 5% tax administrators are not agreed with this. In total 98% of respondents have supported this view, only 2% are not supported this view.

From this, conclusion makes that income tax is one of the most important source of government income.

4.2.2 Contribution of Special Facilities in Collection of Income Tax

To know the view of respondents whether the special facilities helps in income tax collection or not a question was asked “In your opinion, does a special facilities help in income tax revenue collection?” The findings are presented in the following table:

Table: 4.7
Contribution of Special Facilities in Collection of Income Tax

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	18	90	2	10	20	100
Tax experts	14	70	6	30	20	100
Tax payers	14	70	6	30	20	100
Total	46	77	14	23	60	100

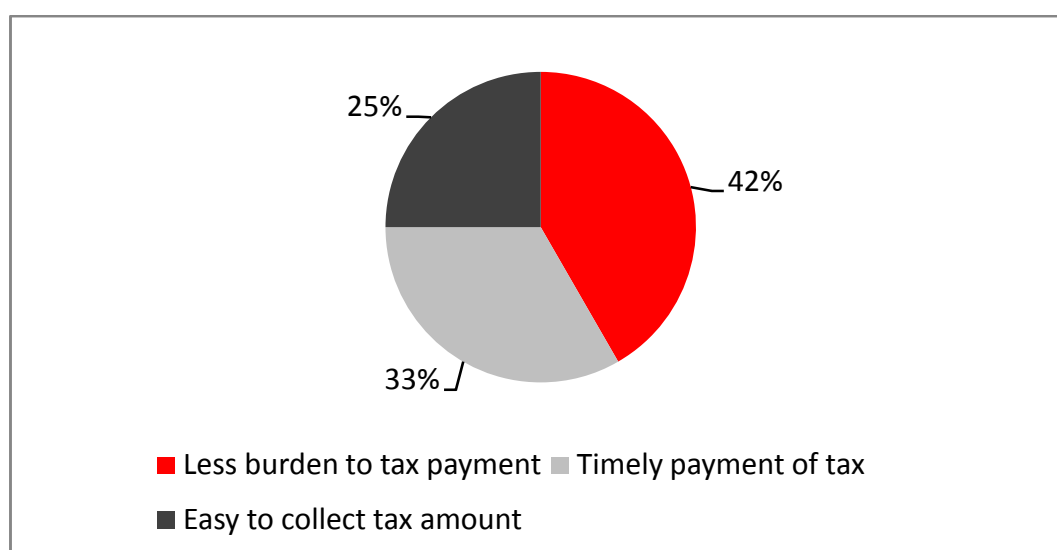
Source: Opinion survey, 2019.

From this opinion survey, it is found that 90% of tax administrators and 70% tax experts and tax payers are in favor of the view. Only 10% tax administrators and 30% tax experts and tax payers have not agreed with this. In total 77% are supported in this view and only 23% has not supported in the view.

After this another question was asked, “How does the special facilities help in collection of income tax revenue?” They are requested for ranking according to their choice.

The respondents prioritized their preferences as in following order:

Figure 4.1: Special Facilities Helping Collection of Income Tax Revenue



Source: Opinion survey, 2019.

It shows that taxpayers feel fewer burdens in tax payments by getting special facilities, which certainly reduces the tax liabilities.

Hypothesis testing:

H_0 : There is no significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

H_1 : There is significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

Considering chi-square test, since calculated value of χ^2 is greater than tabulated value of χ^2 the null hypothesis H_0 is rejected and the alternative hypothesis is accepted. Therefore, it is concluded that there is significant difference among the view of respondents on the contribution of special facilities in collection of income tax (Source: Appendix-II).

4.2.3 Necessity of Special Facilities for Manufacturing Industry

To know the view of respondents whether it is needed the special facilities to manufacturing industries or not a question was asked, "Is the special facilities to manufacturing industries are needed?" The opinion result is summarized in the following table:

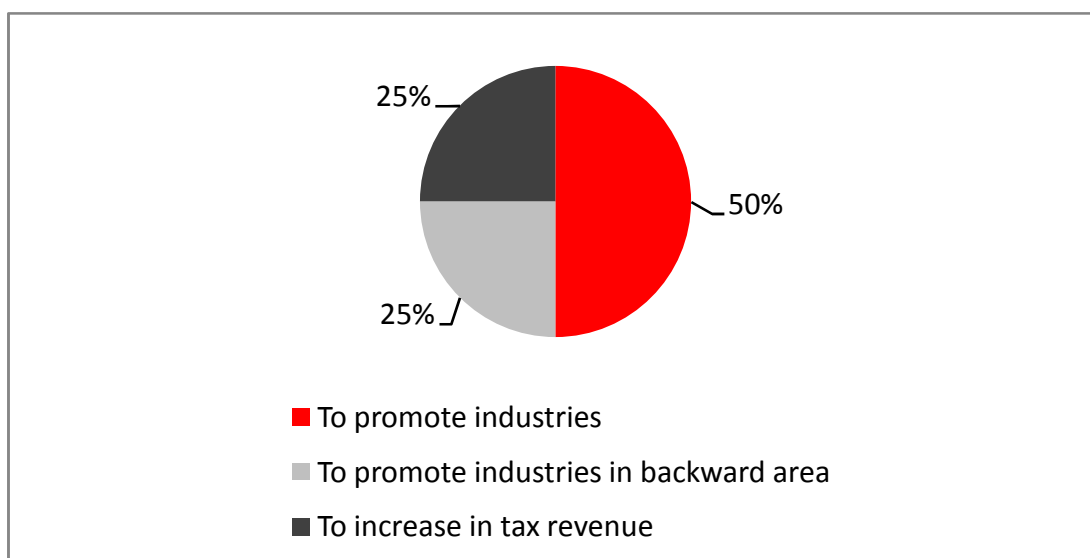
Table: 4.8**Necessity of Special Facilities for Manufacturing Industries**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	14	70	6	30	20	100
Tax experts	13	65	7	35	20	100
Tax payers	19	95	1	5	20	100
Total	46	77	14	23	60	100

Source: *Opinion survey, 2019.*

From this opinion survey, it has been found that 70% of tax administrators, 65% of tax experts and 95% taxpayers have in favour of the view. Only 30% of tax administrators, 35% of tax experts and 5% of taxpayers have not agreed with this view. In total 77% have supported in this view and only 23% have not supported in the view.

After this an additional question was asked, "Why the special facilities are needed." They have requested to rank according to their preference. They ranked as follows:

Figure 4.2: Special Facilities Needed

It shows that special facilities help to promote the industries.

4.2.4 Attitudes Towards the Need of Increasing the Special Facilities

To know the view of respondents towards the special facilities provided by ITA 2058 are enough or to be increased a question was asked, "Is it necessary to increase the special facilities to manufacturing industries?" The views of respondents are summarized in the following table:

Table: 4.9**Attitudes Towards the Need of Increasing the Special Facilities**

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
respondents						
Tax administrators	9	45	11	55	20	100
Tax experts	9	45	11	55	20	100
Tax payers	17	85	3	15	20	100
Total	35	58	25	42	60	100

Source: *Opinion survey, 2019.*

This table 4.9 shows only 45% of tax administrators, tax experts are supported to increase the special facilities and 55% of tax administrators and tax experts were suggested that there is no need of increasing special facilities. They viewed that the infrastructure is most important than increasing the facilities. Therefore, the government should make the fair business environment instead of increasing the

facilities. However, the majority of taxpayers are in increasing the special facilities that encourage them.

4.2.5 Effective Implementation of Special Facilities

To know the view about the implementation of special facilities providing by the ITA 2058, a question asked, "Are the special facilities provided by ITA 2058 are implemented effectively in manufacturing industries?" The views of respondents are summarized in below table:

Table: 4.10

Effective Implementation of Special Facilities

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	16	80	4	20	20	100
Tax experts	11	55	9	45	20	100
Tax payers	11	55	9	45	20	100
Total	38	63	22	37	60	100

Source: Opinion survey, 2019.

From the sample survey of tax administrators, tax experts and tax payers, on the view of special facilities provided by ITA 2058 are effectively implemented or not. Most of respondents argued that there has effective implementation of the act in manufacturing industries. However, the 37% of respondents are not agreed.

4.2.6 Impacts of the ITA 2058

In order to know the view about the impact of the act 2058 on manufacturing industries, a question is developed and asked, "Is there any impacts of the ITA 2058 on manufacturing industries?" The view of respondents are summarized in below table.

Table: 4.11

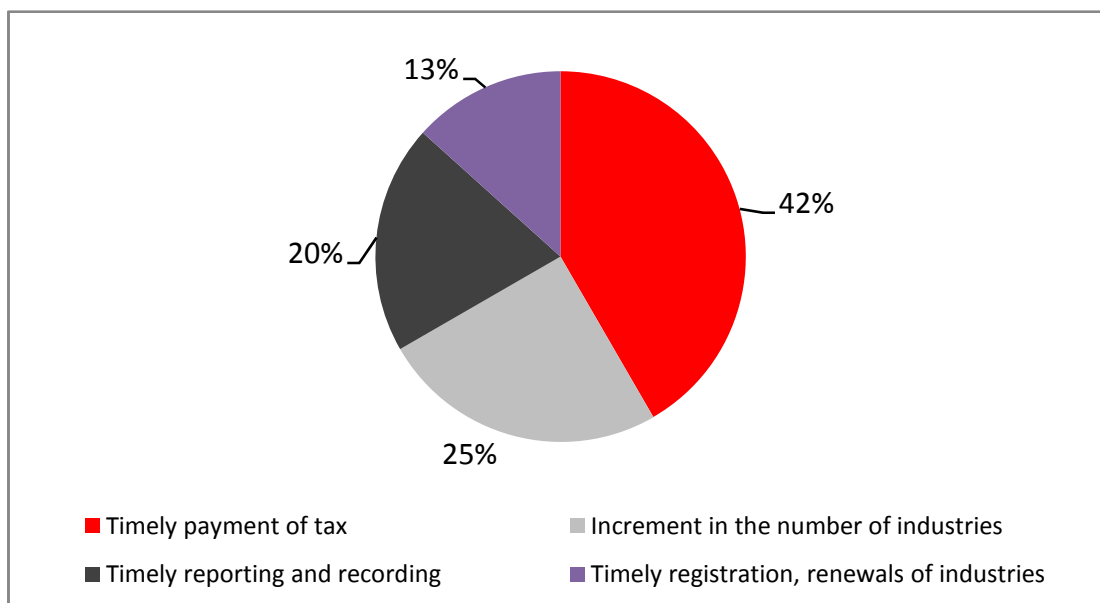
Impact of ITA 2058 on Manufacturing Industries

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	8	40	12	60	20	100
Tax experts	7	35	13	65	20	100
Tax payers	13	65	7	35	20	100
Total	28	47	32	53	60	100

Source: Opinion survey, 2019.

From this opinion survey, it is found that 60%, 65% and 35% of tax administrator, tax experts and tax payers argued that there is no any impact of act in manufacturing sectors. However the 47% of respondents are agreed in the view of there is impact on manufacturing industries of the act. After this a question was asked, "What are the impact of the act?" Their opinions are ranked according to their priority as follows:

Figure 4.3: Impact of Act



In conclusion, there has been less impacts of the act in manufacturing sector.

Hypothesis testing:

H_0 : There is no significant difference among the views of respondents on the impacts of the act 2058 on manufacturing industries.

H_1 : There is significant difference among the views of respondents on the impact of the act 2058 on manufacturing industries.

Considering chi-square test, since the calculated value of χ^2 is less than tabulated value, the null hypothesis H_0 is accepted. Therefore we conclude that there is no significant difference among the view of respondents on the impact of the act 2058 on manufacturing industries (Source: Appendix-III).

4.2.7 Classification of Total Area for Tax Purpose

ITA 2058 has classified the total area into remote, undeveloped and underdeveloped for tax purpose. To know the opinion of respondents whether it helps to collect the tax

or not a question was asked, "ITA 2058 has classified the total area into remote, underdeveloped and underdeveloped for tax purpose is it help to collect the tax?" The opinion of respondents are summarized in the following table:

Table: 4.12

Classification of Total Area for Tax Purpose

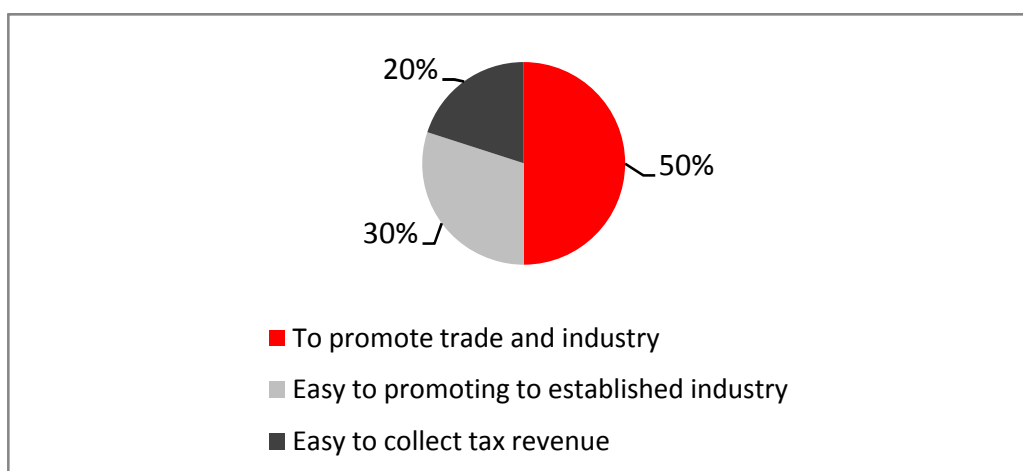
Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	10	50	10	50	20	100
Tax experts	9	45	11	55	20	100
Tax payers	14	70	6	30	20	100
Total	33	55	27	45	60	100

Source: Opinion survey, 2019.

From the sample survey of tax administrators, tax experts and tax payers, on the view of classification of total area for tax purpose. Among the respondents 50% of tax administrators, 45% of tax experts and 70% of tax payers have said classification of total area for tax purpose is helpful in tax collection. However, among the respondents 50% of tax administrators, 55% of tax experts and 30% of tax payers were said classification of total area for tax purpose is not help in tax collection.

After this an additional question was asked, "How does it help to collect the tax revenue?" The priorities given by the respondents are as follows:

Figure 4.4: Helping to Collect the Tax Revenue



It makes the conclusion, the classification of areas encourage the entrepreneurs to establish the industries.

Hypothesis testing:

H_0 = There is no significant difference among the views of respondents on the classification made by the act to collect the tax revenue.

H_1 : There is significant difference among the views of respondents on the classification made by the act helps to collect the tax revenues.

Considering chi-square test, since the calculated value of χ^2 is less than tabulated value, the null hypothesis H_0 is accepted. Therefore we conclude that there is no significant difference among the view of respondents on the classification made by the act helps to collect the tax revenues (Source: Appendix-IV).

4.2.8 Attitudes Towards Rebate Rate

ITA 2058 has prescribed 30%, 25% and 20% rebate for the remote, undeveloped and underdeveloped respectively. To know whether it is satisfactory or not a question was asked, "ITA 2058 has provided the rebate of 30%, 25% and 20% for the remote, underdeveloped and undeveloped area respectively, is it satisfactory?" Response of respondents are summarized in the following table:

Table: 4.13
Satisfactory Towards Rebate Rate

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	15	75	5	25	20	100
Tax experts	16	80	4	20	20	100
Tax payers	15	75	5	25	20	100
Total	46	77	14	23	60	100

Source: *Opinion survey, 2019.*

From the sample survey of tax administrators, tax experts and tax payers, on the view of attitudes towards rebate rate. Among the respondents 75% of tax administrators, 80% of tax experts and 75% of tax payers are satisfied. However, among respondents 25% of tax administrators, 20% of tax experts and 25% of taxpayers are not satisfied. The respondents who are not satisfied are suggested for 50% rebate to remote area.

4.2.9 Excess Depreciation for Special Industry/Entity

In the opinion collection one-third plus depreciation on special industry from respondents as question was asked, "In your opinion, is it justifiable to providing one-third plus depreciation in special industry?" response of respondents are summarized in the following table:

Table: 4.14

Appropriateness of Excess Depreciation for Special Industry/Entity

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	19	95	1	5	20	100
Tax experts	15	75	5	25	20	100
Tax payers	15	75	5	25	20	100
Total	49	82	11	18	60	100

Source: Opinion survey, 2019.

From the sample survey of tax administer, tax experts and tax payers, on the interview of one-third plus depreciation to the special industry, 82% respondents are in favour of needs of one-third plus depreciation and remaining 18% are on aligned width of needs of one-third plus depreciation.

Most of the respondents viewed that this additional facility encouraged to establish the industries which helps to grow the national economy by utilizing the resources but those respondents who are no satisfied of providing one-third more depreciation to the industries viewed that it just increase the tax evasion practice and they also viewed that the government should make the fair environment to operate the industries of providing this additional facility.

4.2.10 Necessity of One-Third More Depreciation for Natural Person

ITA 2058 has provided one-third depreciation for an entity only. To know the views towards the necessity of this facility to natural person a question was asked, "Is it necessary to provide one-third depreciation more to natural person too?" Response of respondents are summarized in the following table:

Table: 4.15
Necessity of One-Third More Depreciation for Natural Person

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	2	10	18	90	20	100
Tax experts	1	5	19	98	20	100
Tax payers	9	45	11	55	20	100
Total	12	20	48	80	60	100

Source: Opinion survey, 2019.

From the sample survey of tax administrators, tax experts and tax payers on the view of necessity of one third more depreciation for natural person 90% of tax administrators, 98% tax experts and 55% of tax payers are not agreed with this view. They viewed that the excess facilities creates unfair competition. In total 20% of respondents recognized that this facility helps to promote the industries and this excess facility should be provided to natural person too. However, the act 2058 does not allow the natural person for this facility.

From this conclusion makes that the excess depreciation facility does not need for natural person. It makes unhealthy business environment.

4.2.11 Concession Provided by the Act

To know whether the concession rate provided by the ITA, is justifiable or not a question was developed, "Is the concession rate provided by ITA 2058 is justifiable" the response found is summarized in following table:

Table: 4.16
Concession Providing by the Act

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	17	85	3	15	20	100
Tax experts	17	85	3	15	20	100
Tax payers	13	65	7	35	20	100
Total	47	78	13	22	60	100

Source: Opinion survey, 2019.

From table 4.16, tax administrators, tax experts and taxpayers on the view of concession providing by the act 85% of tax administrators and tax experts, 65% of tax payers have recognized that the concession rate provided by ITA 2058 is appropriate but 15% tax administrators, 15% of tax experts and 35% of tax payers have said they are not satisfied on the concession rate provided by ITA 2058.

The respondents who are not satisfied with this rate viewed that the classification of total area into remote, undeveloped and underdeveloped is not justifiable on its, so the concession rate provided according to these classification is not justifiable. They have viewed manufacturing industries should be provided 50% concession.

4.3 Sufficiency of the Provision of Tax Incentives, Concession and Facilities for Manufacturing Industries

This question was asked to respondents to know their opinion about the facilities provided in tax laws. The responses received from the respondents are tabulated as follows:

Table : 4.17

Sufficiency of Provision of Tax Incentives, Concession and Facilities

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Administrator	20	100	0	0	20	100
Tax Experts	18	90	2	10	20	100
Taxpayers	14	70	6	30	20	100
Total	52	86.67	8	13.33	60	100

Source: Field Survey, 2019

The table 4.17 shows that in aggregate 86.67 % of the respondents were satisfied the provision of rebates, concession and facilities included for the manufacturing industries in Nepal. Only 13.33% of respondents were not satisfied with this provision. In conclusion, most of the respondents are satisfied with this provision for tax rebates and facilities for manufacturing industries which shows there is positive impact of concessions and facilities provided for manufacturing industries in Nepal.

4.3.1 Charging of Depreciation and Depreciation Allowance

This question was asked to know the opinion of respondents about provision of depreciation in tax act whether they were satisfied with this provision or not. The responses received from respondent are tabulated as below.

Table : 4.18
Depreciation Allowance for Manufacturing Industries

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax administrators	18	90	2	10	20	100
Tax experts	16	80	4	20	20	100
Taxpayers	15	75	5	25	20	100
Total	49	81.67	11	18.33	60	100

Source: Field Survey, 2019

The table 4.18 shows that in aggregate 81.67% of the respondents were agree with the adequate provision for depreciation allowances and only 18.33% were disagree with the provided depreciation allowance. For depreciation ITA has categorized depreciable assets into five groups under accelerated depreciation. Building and structures are provided for 5% rate, computers, furniture and fixture are provided 25% depreciation, automobiles and buses are provided 20% rate, construction equipment are provided 15% rate and intangible assets are provided cost divided by life. Manufacturing industries can claim additional depreciation at one third of the normal rate. Production oriented industry shall be entitled to claim 50% depreciation in the same income year on the capital amount that has been capitalized as an asset to generate power required for its own use (MoF, 2076). This shows the allowance of depreciation for manufacturing industries has significant impact which induces manufacturing industries.

4.3.2 Tax Rebate

A tax refund or tax rebate is a refund on [taxes](#) when the tax liability is less than the taxes paid. Taxpayers can often get a tax refund on their income tax, if the tax they owe is less than the sum of the total amount of the [withholding taxes](#) and [estimated taxes](#) that they paid, plus the [refundable tax credits](#) that they claim. This question was

developed to know the opinion of respondents about tax rebate for manufacturing industries. The responses received from respondent are tabulated as follow:

Table : 4.19
Tax Rebate for Manufacturing Industries

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Respondents						
Tax Administrator	0	0	20	100	20	100
Tax Experts	0	0	20	100	20	100
Taxpayers	2	10	18	90	20	100
Total	2	3.33	58	96.67	60	100

Source: Field survey, 2019

The table 4.19 shows that in aggregate 96.67% of the respondent respond that tax rebate for manufacturing industries is insufficient and not provided. Only 2 taxpayers are found satisfied in tax rebate facilities provided to Nepalese manufacturing industries. This shows, tax rebate has not motivated Nepalese manufacturing industries.

4.3.3 Tax Holidays for Manufacturing Industries

A tax holiday is a temporary reduction or elimination of a tax. It is synonymous with tax abatement, tax subsidy or tax reduction. Governments usually create tax holidays as incentives for business investment. This question was asked to know the opinion about the tax holidays practices in Nepal. The response received from the respondent are presented below:

Table : 4.20
Tax Holidays for Manufacturing Industries

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Respondents						
Tax Administrator	20	100	0	0	20	100
Tax Expert	20	100	0	0	20	100
Taxpayers	20	100	0	0	20	100
Total	60	100	0	0	60	100

Source: Field survey, 2019

The table 4.20 shows the 100 percent respondents were agreed that tax holidays facilities has significant effect for the Nepalese manufacturing industries. They Tax holidays facilities for Nepalese special industries is provided for 5 years from the date of establishment on the basis of 1 billion investment and employment for 500 or more than 500 people through the year. Similarly, 7 years tax holidays is provided for government mining petroleum and natural gas. Similarly 10 years tax holidays is provided for energy based industry and 5 years tax holidays is provided for tourism related industries. Likewise aviation company are provided for 5 years tax holidays from the date of establishment (MoF, 2076).

4.3.4 Sufficiency of Exempted and Deduction Items

To know the respondent's opinions about the exemption and deduction items are sufficient or not, a question was asked, "Do you think that exempted and deducted items are sufficient?" The responses received from the respondents are tabulated below:

Table: 4.21
Exemption and Deduction Item are Sufficient or Not

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Administrator	12	60	8	40	20	100
Tax Expert	13	65	7	35	20	100
Taxpayers	10	50	10	50	20	100
Total	35	58.33	25	41.67	60	100

Source: Field survey, 2019

The table 4.21 shows that in aggregate 58.33% were satisfied with the provision of exemption and deduction. But 41.67% were dissatisfied with that provision. In conclusion, most of the respondents respond that exemption and deduction items are sufficient. It shows exemptions and deductions limit has significant impact on manufacturing industries in Nepal.

4.3.5 Sound and Effectiveness of Tax System in Nepal

This question was developed to know the opinion of respondent about Tax system is effective or not for manufacturing industries. The responses received from respondent are tabulated as follows:

Table : 4.22
Sound and Effectiveness of Tax System for Manufacturing Industries

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Administrator	14	70	6	30	20	100
Tax Expert	5	25	15	75	20	100
Taxpayers	7	35	13	65	20	100
Total	26	43.33	34	56.67	60	100

Source: Field Survey, 2019

The table 4.22 showed in aggregate 43.33% of respondent was agreed this question but 56.67% of respondent were not agreed with this question. Their opined that the present tax system is being rigid and unpracticable for manufacturing industries. In conclusion, overall tax system for Nepalese manufacturing industries is found unfavourable from the view of tax expert and taxpayers. But it is highly positive from the view of tax administrator. It shows the tax system may demotivate new manufacturing industries.

4.4 Effect of Tax Incentives on Growth of Manufacturing Companies

The question was asked to the respondents to know their opinion on effect of tax incentives on growth of manufacturing companies. Their opinion has been presented in the following table.

Table : 4.23
Effect of Tax Incentives on Growth of Manufacturing Companies

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Administrator	18	90	2	10	20	100
Tax Expert	17	85	3	15	20	100
Taxpayers	15	75	5	25	20	100
Total	50	83.33	10	16.67	60	100

Source: Field survey, 2019

Table 4.23 shows that about 83.33 percent of the respondents opined the positive impact of tax incentives on the growth of manufacturing companies. There are 16.67 percent respondents who were not agree on this statement. They argued that only tax

incentives cannot effect on growth industry-friendly environment is the major part of the growth and development of manufacturing industries. Majority of the respondents who are not agree on impact of tax incentive on growth found from taxpayers. Their opinion was government should develop industry friendly environment where manufacturing industries can growth.

4.4.1 Major Factors that Effect Growth of Manufacturing Companies

There are currently 6,328 companies in Nepal registered under different categories (as of March 2018). The largest share of these (41%) are in the manufacturing sector, which has 2,585 companies, followed by the service and tourism sectors. As the manufacturing sector represents a major portion of the industry in Nepal, the development of this sector is important to the government in terms of generating employment opportunities, promoting trade, enhancing national income growth, and alleviating poverty (Investment Board, 2018). Following are the major tax incentives which effect on growth and development of manufacturing companies.

Table : 4.24

Major Tax Incentives for the Growth of Manufacturing Companies

S.N.	Factors	No. of respondents	Rank
1	Tax rebates	15	5
2	Allowance in Depreciation	12	6
3	Concessions	33	3
4	Exemptions and Deduction limit	54	1
5	Tax holidays	27	4
6	Tax systems	39	2

Source: Field survey, 2019

Table 4.24 shows that most of the respondents focused on exemptions and deduction limit has significant impact on growth and development of manufacturing industries and least respondents gave importance to allowance in depreciation. Similarly, tax systems, tax concessions and tax holidays are also the important factors for the development and growth of manufacturing industries.

4.5 Major Findings

On the basis of preceding chapters and data presentation and analysis some major findings can be drawn. The major findings of thesis study are summarized below:

4.5.1 Findings of the Secondary Data

-) The Nepalese government revenue is the composition of tax and non-tax revenue. There is dominant share of tax revenue in Nepalese government revenue. The tax revenue collection has seen to be in the gradually increasing trend form Fy 2012/13 to 2017/18.
-) Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect tax on total tax revenue are 26.14 and 73.86 become 24.29 and 75.71 percent in Fy 2017/18. However, the share of indirect tax in Nepalese tax revenue is increasing trend, still it is dominating direct tax revenue. Income tax is the major source of direct tax revenue and widespread evasion of income tax may be the major reason for the low contribution of direct tax.
-) The contribution of total revenue on GDP is in increasing trend. This is 11.83% in Fy 2012/13 and 14.71% in Fy 2017/18. The contribution of total tax revenue on GDP nearly remained constant during the study period. It is 9.40% in Fy 2012/13 and 12.98% in Fy 2015/16. The contributing direct and indirect tax on GDP are 2.46% and 6.94% in Fy 2012/13 and 3.15% and 9.83% in Fy 2017/18 respectively. The contribution of total revenue, total tax revenue, direct tax revenue and indirect tax revenue on GDP are not satisfactory.
-) There is a clear indication of the serious and growing financial resource problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income tax has appeared one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired developmental objective of Nepal.

-) There are no provisions of excess of depreciation facility for the natural person under the ITA 2058. In the view of necessity of this facility, most of respondents review. Recently there is no need of this facility because whatever is granted is not fully utilized yet.

4.5.2 Findings of the Primary Data

-) As per opinion survey, most of the respondents have suggested to increase the facilities. It helps to increase number of industries and employment opportunities, which reduces the dependency. On the other side, 42% of respondents are not ready to accept the view of increasing the facilities. However, the majority of taxpayers are favour of increasing the facilities.
-) Increment in the number of industries, timely reporting and recording, timely registration and renewal and timely payment of tax are the positive impacts of the act.
-) The classification made and the facilities provided by the act may encourage the entrepreneur to operate industries in backward area and helps to raise the economy of this area as well as nation.
-) In the opinion survey, most of the respondents have been satisfied with the concession rate provided by the act. However, some respondents suggest for increasing this rate to 50% for remote area.
-) The provision of the excess depreciation facility to special industry is justifiable that reduces the tax liabilities.
-) In some cases, the taxpayer are not responding their duties in computation of taxable income. Lack of tax information and poor enforcement of fine and penalties are the cause of this. To get the expected results effective fine and penalty system to be enforced.
-) More than 86.67 % of the respondents were satisfied the provision of rebates, concession and facilities included for the manufacturing industries in Nepal. Only 13.33% of respondents were not satisfied with this provision.
-) About 81.67% of the respondents were agree with the adequate provision for depreciation allowances and only 18.33% were disagree with the provided depreciation allowance.

-) More than 96.67% of the respondent respond that tax rebate for manufacturing industries is insufficient and not provided. Only 2 taxpayers are found satisfied in tax rebate facilities provided to Nepalese manufacturing industries.
-) All the respondents (100%) were agreed that tax holidays facilities has significant effect for the Nepalese manufacturing industries.
-) More than 58.33% were satisfied with the provision of exemption and deduction. But 41.67% were dissatisfied with that provision.
-) About 43.33% of respondent was agreed this question but 56.67% of respondent were not agreed with this question. Their opined that the present tax system is being rigid and unpracticable for manufacturing industries.
-) About 83.33 percent of the respondents opined the positive impact of tax incentives on the growth of manufacturing companies. There are 16.67 percent respondents who were not agree on this statement.
-) Most of the respondents focused on exemptions and deduction limit has significant impact on growth and development of manufacturing industries and least respondents gave importance to allowance in depreciation.

CHAPTER-V

CONCLUSION

5.1 Summary

In developing countries like Nepal, lack of sufficient financial resources is the main constraint for national economic development. A lot of fund is required to meet the additional financial requirements for the development activities of the country. Nepal has been suffering form capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing year by year. To meet the additional capital requirements Nepalese government has been using external and internal resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit and resources gap of Nepal have been increasing every year.

In Nepalese income tax system was introduced in 1959 (2016 B.S.). The elected government levied the first income tax and so specific act was made to define and to treat income tax. Since than four income tax acts have been implemented. The present study entitled "Special provisions to industries under income tax act 2058" is related to the income tax collection and its efficiency and increment in total collection after the implication of the act.

This study entitled "Impact of Special provisions to manufacturing industries under ITA 2058" is concerned with the provisions and facilities to manufacturing industries. In this study, contribution of tax and non-tax revenue in total revenue has been analyzed. This study covers the important of income tax in government revenue, provisions and facilities i.e. concession rate, excess rate of depreciation facilities etc. for the industrial development, implementation of the act in manufacturing sectors and its impact etc.

Different books, articles, thesis and others related reference material are studied during the course of this study. This study is unique among the thesis and books because no one has been conducted the research on this specific topic. All thesis has been found written on various aspects of income in taxation. Books has found based mainly on the syllabus of universities. Classification of the manufacturing industries,

facilities and concessions to manufacturing industries, national priorities industries and classification of district on the basis of industrialization has shown in conceptual framework of this study.

Primary as well as secondary data are used in this study. Economic survey has been used as major sources of secondary data. A schedule of questionnaire has been used to collect the opinion of respondents. It has distributed to the three distinct groups of respondents i.e. tax experts, tax administrators and tax payers. Tax experts consist of government tax officer's teachers, professor and chartered accountant. Tax administrators consist of government tax officers and taxpayers consist of taxpayers of government organization, trading company, finance company etc. The 95 sets of question was distributed among them 60 respondents is return the response that has been 20 in each group. Statistical analysis has been done to analyze the data, simple average, correlation for test of beauty of common approach, chi-square test hypothesis has been tested on the view of respondents has similar or not. Major findings from primary data as well as secondary data analysis have put in the end of the chapter four. Conclusion and some recommendations have given on the end of study. In this way, this study has been completed with fulfillment of stated objectives.

5.2 Conclusions

Tax structure of Nepalese government revenue is the composition of income tax, value added tax, custom duty, excise duty, house and land tax, property tax and others. Among different tax sources, VAT has highest contribution which is about 30 percent. Similarly, income tax contribute about 20 percent in total tax revenue. Likewise, custom duties and excise has also significant contribution which is about 16 and 12 percent. Similarly, house and land tax, property tax and other tax revenues has also significant contribution on total tax revenue.

The data reveals that the total income tax has more than 20% contribution on total revenue whereas it has about 22 percent contribution on total tax revenue and more than 80 percent contribution on direct tax revenue. Income tax has been collected from various sources like tax from public enterprise, private corporate bodies, tax from individual, remuneration tax, interest tax and other tax revenue. Corporation was the highest contributor to the total revenue. Individual tax payer has contributed second highest contribution. Income tax is introduced in the fiscal year 1959/60 and

the percentage share of income tax to government revenue is in increasing trend at present but it is not regarded satisfactory in comparison to other developing countries.

The finding shows that provision for tax rebates and facilities for manufacturing industries which shows there is positive impact of concessions and facilities provided for manufacturing industries in Nepal. About 83.33 percent of the respondents opined the positive impact of tax incentives on the growth of manufacturing companies. There are 16.67 percent respondents who were not agree on this statement. They argued that only tax incentives cannot effect on growth industry-friendly environment is the major part of the growth and development of manufacturing industries. Among various tax incentives, exemptions and deduction limit has significant impact on growth and development of manufacturing industries and least respondents gave importance to allowance in depreciation. Similarly, tax systems, tax concessions and tax holidays are also the important factors for the development and growth of manufacturing industries.

5.3 Implications

On the basis of the study on the special provisions provided to manufacturing industries under income tax act 2058 following recommendation are offered.

-) Income tax is considered as an important source of collecting government revenue from internal sources, so increase the income from this sources, new industrial tax payers should bring into the tax brackets rather than increasing tax rates. Government should try to widen the area of tax so that every people whether high income holder or less income holder so that they will feel the responsibility towards nations.
-) The provision of special facilities to manufacturing industries are clear in the act, but there is loose interpretation in implementing side. There should be uniformity. The government should give its attention towards closing of loopholes.
-) As per the income tax act 2058, the flat rate is levied both to resident and non-resident companies in Nepal. In many countries like India, Belgium, Germany, Indonesia and New Zealand foreign companies are taxed at the higher rate than domestic companies. Nepal also tax rate should be higher say 40% in case of foreign companies as against 20% to 25% in case of domestic companies.

-) The members involved in formulating income tax policies must have deep knowledge about income tax. The income tax policy maker have to see the income tax policies of other developing countries as well as other related developed countries for the improvement of policies.
-) Special provision have been provided to manufacturing industries, by ITA 2058 but the result of this sector has not been researched, it is advisable to renew the arrangement as far as the result of survey.
-) The harmonization is necessary for industrial growth and facilities other than tax such as infrastructure should be provided. Without infrastructure development, no organization can expand its economic activities which directs the nation downward sloping.
-) Government should focus to manufacturing industries to diversity their branch in remote area for balanced economic growth. This helps to makes the balance of development.

Suggestions for Future Researcher

-) Impact of Tax Incentives on the Growth and Development of Manufacturing Industries in Nepal.
-) Awareness of Income Taxpayers on Provisions and Incentives for Manufacturing Industries under Income Tax Act, 2058.

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APPENDICES

Appendix I

Questionnaire

Dear Sir/Madam

First of all, I would like to introduce myself as a student of Central Department of Management, Tribhuvan University, MBS Final Year. In order to fulfill the partial requirement of Master Degree in Business Studies of Tribhuvan University of Nepal, I am conducting the research work entitled "*Special Provision and Incentive for Manufacturing Industries Under Income Tax Act, 2058.*"

I have sent this questionnaire to spare some of your valuable time to provide your valuable experience, suggestions and opinions concerning with income tax system in Nepal, which will be very much appreciated. If you could provide your important time for filling this questionnaire.

I assure that the information you provide me will solely be utilized in research work. I hope for your kind co-operation and support.

Dipendra Raj Karki

Your sincerely

Questionnaire

Please put tick mark () in your choice. Please rank from 1 (most important alternatives) to last number in order to preference.

1. Do you think that income tax is an important source of collecting government income?
 - a. Yes ()
 - b. No ()
2. In your opinion, special provisions under income tax act 2058 has helped in increasing tax revenue?
 - a. Yes ()
 - b. No ()

If yes, (Please rank)

- a. Timely payment of tax ()
- b. Less burden to tax payment ()
- c. Easy to collect tax amount ()
- d. Other (please specify)
3. Do you think special provision to manufacturing industries should be provided?
 - a. Yes ()
 - b. No ()

If yes, (please rank)

- a. To increase in tax revenue ()
- b. To promote industry ()
- c. To promote industry in backward area ()
4. Is the special provisions provided to manufacturing industries sufficient?
 - a. Yes ()
 - b. No ()

If yes (Please specify)

5. Are the special provision provided by ITA 2058 are implemented effectively in manufacturing industries?
 - a. Yes
 - b. No
6. Is there any impact of the act 2058 on manufacturing industries?
 - a. Yes
 - b. No

If yes, (please rank)

- a. Increment in the number of industries
- b. Timely reporting and recording
- c. Timely registration and renewal of industries
- d. Timely payment of tax
- e. Others (please specify)

7. ITA 2058 has classified the total area into remote, undeveloped, underdeveloped for tax purpose, does it helps to collect the tax?

If yes, (please rank)

- a. Easy to collect tax revenue
- b. To promote the industry
- c. Easy to promote to establish the industry
- d. Others (please specify)

8. ITA 2058 has provided the rebate of 30%, 25%, 20% of the income tax for the industries operating in remote, undeveloped and underdeveloped respectively, is it satisfactory?

a. Yes b. No

If yes, please specify the reasons.

.....

If no, please specify the reason

.....

10. Is it necessary to provide 1/3 rd depreciation more to natural person too?

a. Yes b. No

11. Is concession provided by ITA 2058 satisfactory?

a. Yes b. No

If yes, please specify

.....

If no, please specify

.....

12. What you think the provision for tax incentives, concession and facilities are sufficient for manufacturing industries?

a. Yes b. No

13. Are you satisfied with the facilities of depreciation and allowance for depreciation in manufacturing industries?

a. Yes b. No

14. Is tax rebate is sufficient for manufacturing industries?

a. Yes b. No

15. Is tax holidays for manufacturing industries is favourable?

a. Yes b. No

16. Do you think that exempted and deducted items are sufficient?

a. Yes b. No

17. Do you think the overall tax systems for manufacturing industries is favourable?

- a. Yes b. No

18. What do you think is there effect of tax incentives on growth of manufacturing companies?

- a. Yes b. No

19. Which factors may effect on growth and development of manufacturing companies? (Please rank 1-6).

a. Tax rebates	
b. Allowance in depreciation	
c. Concessions	
d. Exemptions and deduction limit	
e. Tax holidays	
f. Tax systems	

20. Would you please state any comments/suggestions regarding the facilities provided to manufacturing industries by ITA 2058?

.....

Appendix-II

Computation of Expected Frequencies under Chi-Square (t^2)

H_0 : There is no significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

H_1 : There is significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

$$\text{Expected frequency (E)} = \frac{O}{n} \times \frac{60}{6} = 10$$

Computation of Expected Frequencies under Chi-Square (t^2)

Observed frequency (O)	Expected frequency (E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
18	10	64	6.4
2	10	64	6.4
14	10	16	1.6
6	10	16	1.6
14	10	16	1.6
6	10	16	1.6
$\phi O = 60$	$\phi E = 60$		19.2

Degree of freedom = $n - 1 = 6 - 1 = 5$

Level of significance is 5% (assume)

Critical value: The tabulated value of χ^2 at 5% level of significance for 5 d.f. is 11.07.

Appendix-III

Computation of Expected Frequencies Under Chi-Square (t^2)

H_0 : There is no significant difference among the views of respondents on the impacts of the act 2058 on manufacturing industries.

H_1 : There is significant difference among the views of respondents on the impact of the act 2058 on manufacturing industries.

$$\text{Expected frequency (E)} = \frac{O}{n} \times \frac{60}{6} = 10$$

Statistically test,

Computation of Expected Frequencies Under Chi-Square (t^2)

Observation frequency (O)	Expected frequency (E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
8	10	4	0.4
12	10	4	0.4
7	10	9	0.9
13	10	9	0.9
13	10	9	0.9
7	10	9	0.9
$\phi O = 60$	$\phi E = 60$		$\phi(O-E)^2/E = 4.4$

Test of statistics,

$$\mathfrak{X}^2 = \frac{(O-E)^2}{E} = 4.4$$

Degree of freedom = $n - 1 = 6 - 1 = 5$

Level of significance is 5% (Assume)

Critical value: The tabulated value of \mathfrak{X}^2 at 5% level of significance for 5 d.f. is 11.07.

Appendix-IV

Computation of Expected Frequency Under Chi-Square (t^2)

H_0 = There is no significant difference among the views of respondents on the classification made by the act to collect the tax revenue.

H_1 : There is significant difference among the views of respondents on the classification made by the act helps to collect the tax revenues.

Statistically test,

Computation of Expected Frequency Under Chi-Square (t^2)

Observation frequency (O)	Expected frequency (E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
10	10	0	0
10	10	0	0
9	10	1	0.1
11	10	1	0.1
14	10	16	1.6
6	10	16	1.6
$\phi O = 60$	$\phi E = 60$		$\phi(O-E)^2/E = 3.4$

Test of statistics,

$$\mathcal{X}^2 = \frac{(O-E)^2}{E} = 3.4$$

Degree of freedom = $n - 1 = 6 - 1 = 5$

Level of significance is 5% (Assume)

Critical value: The tabulated value of \mathcal{X}^2 at 5% level of significance for 5 d.f. is 11.7.