

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked and least developed country covering 1,47,181 square km.(i.e.56,827 square mill) area of land. It has extended 885k.m. and 193k.m. in average length (east-west) and breadth (north-south) respectively. The area of Nepal is 0.03% of the world and 0.3% of the Asia. The structure of Nepalese economy has been changing gradually. World economy is gaining momentum with a recovery in developed economies. International Monetary Fund projected that the world economy grows by 3.5 percent in 2017. Such growth rate stood at 3.1 percent in 2016. Likewise, India and China, two neighboring economies, are projected to grow by 7.2 percent and 6.6 percent respectively in 2017. Nepal's overall economic activity has been encouraging in fiscal year 2016/17. Economic activities have expanded due to favorable monsoon, increase in capital expenditure, energy management, and improvement in investment environment including overall supply situation. As a result, gross domestic product (GDP) at basic price is estimated to grow by 6.94 percent in the current fiscal year. This growth rate is the highest since FY 1993/94. Such growth rate was 0.01 percent in the previous fiscal year. The economy that contracted due to the earthquake and disruption in border points is in the stage of recovery and expansion.

Agriculture and non-agriculture sectors are estimated to grow by 5.29 percent and 7.74 percent respectively in FY 2016/17. Such growth rates were 0.03 percent and 0.16 percent in the previous fiscal year. Likewise, service sector and industrial sector are estimated to grow by 6.9 percent

and 10.97 percent respectively in the current fiscal year. Nepalese economy is in the stage of structural transformation as the share of service sector is increasing while that of agriculture sector is decreasing. The share of agriculture and non-agriculture sectors to GDP is estimated to remain at 29.37 percent and 70.63 percent respectively in fiscal year 2016/17. The share of consumption in GDP has mostly remained high. Its share in GDP is estimated to remain 89.7 percent in the fiscal year 2016/17. Such share stood at 96.18 percent in the previous fiscal year. The share of gross domestic savings in GDP is estimated to grow by 6.43 percentage points in fiscal year 2016/17 as compared to the previous fiscal year. Such share is estimated to be 10.25 percent in the current fiscal year. Likewise, the ratio of gross national savings to GDP is estimated to remain at 43.78 percent. Such ratio stood at 39.96 percent in the previous fiscal year.

The overall financial sector situation has been satisfactory in FY 2016/17. Broad money supply remained within desired level while non-performing loan ratio of the banking sector has declined. Deposit expansion of the banking sector has shown normal trend. However, credit to deposit ratio of banks and financial institutions has increased due to the improved economic activities together resulting higher credit expansion. Status of overall financial soundness indicators has been satisfactory while that of access to finance is improving. Financial sector has helped towards maintaining macroeconomic stability. Macroeconomic indicators have remained satisfactory as a result of satisfactory progress of the financial sector. Inflation has remained low in fiscal year 2016/17 as compared to last few years. In the first eight months of the current fiscal year, consumer price inflation stood at 5.1 percent on average. Such rate was 9.7 percent in the corresponding period of the previous fiscal year.

Growth in agricultural production and improvement in overall supply situation are attributable for such a low inflation rate in the current fiscal year.

The balance of payments is not favorable in every year because import of goods is higher than export of goods. It has also been commonly known that the gap between expenditure and revenue that is called "resource gap" which is increasing in each year. Nepal is among the poorest and least developed countries in the world. Therefore, the resource gap has been a serious bottleneck in the process of economic development of developing countries like Nepal to raise government revenue. A merchandise export has increased by 12.8 percent to Rs. 48.22 billion in the first eight months of the fiscal year 2016/17. Likewise, merchandise imports have increased by 44.2 percent to Rs. 628.56 billion. The growth of both merchandise exports and imports was negative in the corresponding period of the previous year. As a result, trade deficit rose by 47.6 percent to Rs. 580.34 billion in the first eight months of the current fiscal year. Such a high growth of imports is the result of the speed up in reconstruction work, increase in capital expenditure and the expansion of credit to the private sectors among others.

In the modern age, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other activities. Every nation desires to improve its current status through proper utilization of resources. The government receipts may take form of taxes and fees, borrowings, grants and loans as external source. Such amounts of funds are spent in maintaining security and peace in the country. It includes the purchases of

arms, ammunition, and maintenance of army and police administration. The Government also spent its funds for fulfilling the basic needs of people, such as health, communications, drinking water and other public utility and facilities etc. Similarly government has to spend in development of socio-economic infrastructure which facilities to promote the private sector. The total prosperity of the nation can be achieved through the equal participation of private sector in development activities.

The government needs huge amount of funds, which can be mobilized through two sources internal and external. Developing countries, like Nepal, have limited source of internal funds so most of the development activities depends on the external sources. The external sources financing are bilateral and multilateral grants, loans from foreign countries and fund from donor agencies. These sources have been limited, inconvenient and not suitable to boost up Nepalese economy due to the vested interest of the programs and policies of the donor country, agencies and need to pay high interest accepting the inappropriate conditions to take the loan. In the modern world, taxation has been taken as the most effective tool for rising national revenue. The Government by mobilizing adequate resources through taxation might invest them in various development programs. In this way, in the underdeveloped countries the government might play an important role in promoting capital information, breaking the vicious circle of poverty and by mobilizing adequate resources through taxation. Mobilization of maximum resources through income tax can be done either by increasing present income tax rates on removing income tax evasion. Increasing the present income tax rate will not be the permanent solution. The taxable capacity of Nepalese people is very low. In such a situation the government should be too cautious before raising the rate of existing taxes in the country.

Country uses borrowings to raise the necessary public funds which are not good for the economic development of the nation. The government has to impose higher tax to repay the interest and Loan. Generally speaking, resources of public revenue taxes are better than borrowing because it is merely transferring of funds to public treasures.

According to Goode "A tax is a compulsory contribution to government revenue without reference to a particular benefit recovered by tax payer. It is a personal obligation to pay tax and there is no direct relationship among tax, benefit and individual tax payers."

According to Lekhi "Taxes is a compulsory payment by the people to the nation. If a person defies the payment of tax, he is punished by court of law,"

According to Adam Smith, A tax is contribution from citizens for the support of the state. The primary purpose of the taxation is to direct control of economic resources from tax payers to the state for its own use of transfer to others, bringing about economic growth, elasticity in the tax structure, control of the internal pressure and reduction of inequality are the main objectives of tax policy. The Great Britain was the first country that introduced modern income tax in 1799 to collect revenue to finance the war expenses. In 1862, the United States of America (U.S.A) introduced income tax to generate revenue to finance for civil war. The Federal corporate income tax was introduced in 1909. In India, modern income tax was adopted in 1960. In Nepal, income tax was introduced in 1959. Both individuals and companies were taxed in similar way during the earlier period but later as companies were levied with a flat rate and individuals with progressive rates.

The present study has been designed to study the contribution of income tax from public enterprises to government revenue of Nepal. PEs play catalytic role in social and economic development process of nation. In Nepal after the down of democracy in 1951, there emerged an environment in which the needs and aspirations of the people were given primary. Accordingly, Nepal Government has limited a system of establishment and functioning of PEs with huge investment for economic development. PEs highly contribute in national exchange by various ways i.e. direct participation in the production of goods and services for income generation including income tax .Although being a public utility enterprise, NTC is capable to establish itself as a business firm. It can successively implement its objectives and plans. Among the government revenue contributors, NTC has been taking top most places. NTC contributes to the government by various taxes i.e. income tax , value added tax, vehicle tax ownership tax, etc. Income from NTC is increasing every year from the adoption of new technology in the field of communications.

1.1.1 Nepal Telecom: An Introductory Profile

Nepal Doorsanchar company Limited (Nepal Telecom) was registered on 2060-10-22 under the company act 2053 and the notice to this effect was published in Nepal Gazette dated 26th Chamita 2060, after dissolving then Nepal Telecommunications Corporation (NTC). However the company name was officially effective from the 1st of Baisakh (13th April 2004) and the general public knew it by the name of Nepal Telecom as its registered trademark.

Mission

“Nepal Telecom as a progressive customer spirited and customer responsive entity is committed to provide nationwide reliable telecommunication services to serve as an impetus to the social ,Political and economic development of the country.”

Vision

“Vision of Nepal Telecom is to remain a dominant player in telecommunication sector I the Country while also extending reliable and cost effective services to all”.

Goal

“Goal of Nepal Telecommunication is to provide cost effective telecommunication caution services to every nook and corner of the country.

1.1.2 Services Provided by Nepal Telecom

GSM Mobile Service being the epicenter of competitive landscape in Nepal’s telecommunication market, business success of Nepal Telecom relies heavily on the availability, affordability and reliability of the service. To strengthen market leadership position and continue business success, Nepal Telecom has been expanding its GSM Mobile services with an aim to provide reliable and cost effective services to the valued customers throughout the country. The company believes that the expansion project sets benchmark in delivering reliable, state-of-the-art mobile communication service and addresses the increasing demand of data service. The quantitative increment achieved through the expansion will be helpful in fulfilling the company’s social responsibility by providing mobile service to the remote, inaccessible and otherwise

unprofitable areas of the nation. This certainly is a way forward to realize the vision of digital inclusion.

The basic GSM services are: Postpaid Mobile Service, Voice Call, SMS, Call Forwarding, Call Waiting, Call Holding, Multiparty Conference Call, GPRS, 3G, CRBT, FNF, International Roaming, Voice Mail, Web SMS, Corporate User Group, Closed User Group (CUG).

Value Added Services (VAS): While voice and data services have been the company's core services, Nepal Telecom has been providing various Value Added Services (VAS) in its GSM mobile system to enrich user experience and expand the horizon of revenue stream. Similarly, Caller Ring Back Tone (CRBT), Voice Mail Service (VMS), Missed Call Alert (MCA), news, weather forecast, jokes, love tips, motivational quotes, horoscope, chat, product and service promotion through SMS, tops customers' priority list. The company believes that these Value Added Services add value to the standard service offering, spurring the subscribers to use their phone more and Our Services SIP account can also be used to make calls to NT's PSTN/GSM/CDMA phones from within as well as outside Nepal. Moreover, SIP to SIP calls can also be made from one SIP PPP account to another. The account can be recharged using Easy Call cards and Namaste Recharge Cards by dialing.

Mobile Point of Sale (MPOS): Facility Considering the popularity of lower denomination recharge, Nepal Telecom started Electronic Pin-less Recharge Card (Top-up Recharge) and MPOS to let customers recharge their GSM service with lower denominations.

Corporate Connection Offer (CCO): To retain the attraction of GSM Post-paid services, Nepal Telecom has been providing Corporate Connection Offer. With recommendation from their organizations, employees in a group of ten or more can register to NT's Corporate Connection Offer. Under this scheme, the registered subscribers receive fl at 10 percent discount on their monthly bills.

3G Service: The global market trend in mobile communication has witnessed a shift from voice to data communication and Nepalese market is no exception. To fulfill the ever growing demand of data communication, Nepal Telecom has introduced WCDMA technology-based 3G (Third Generation) service. It is an extension to the GSM service that delivers voice and faster data service at downloading speed of 384 kbps and uploading speed of 64 kbps. Nepal Telecom's 3G service, for both postpaid and prepaid subscribers, is now available in 77 districts.

PSTN Service: The root of Nepal Telecom's present business success dates back to the establishment of first telephone line almost a century back. Presently the service is available in all 75 districts via 518 Telephone Exchanges in 250 different locations. Despite the rise of mobile communication, Nepal Telecom has been expanding its PSTN service to extremely remote and otherwise unprofitable areas. This has significantly contributed to the social, cultural, economic and educational development of the nation. Availability of data service like ADSL has helped to maintain growth in the wire line arena despite the fact that global trend has shifted from wire line to wireless communication. Project to provide broadband triple play (voice, data and video) throughout the nation by installing state-of-the-art IP-based soft switch and Media Gateway is underway. This will replace TDM-based switching

exchanges that have been providing narrowband voice and data services. With the onset of triple play and other Value Added Services, wire line services are expected to stay longer.

Features available in PSTN service: Caller Line Identification (CLI), Locking Code, Call Hunting, Three Party Conferences Call, Transfer Call Waiting, Home Metering, Abbreviated Dialing Wakeup Call, STD, ISD (IDD, Budget, 1424) Calling facility.

NGN Service: IP-based wire line project is in execution phase with an aim to contribute to the country's telecommunication development through expansion of existing services, providing easy access to the services, enhancement in service quality and starting new multimedia services. NT believes that this project will be advantageous in providing voice and data services to the areas devoid of telecommunication facilities and providing new multimedia services that will be made available in the near future. Under this project, IP-based Next Generation Network (NGN) Soft switch and Access Network Equipment are put into operation to provide broadband services at relatively low cost due to the fact that the copper network deployed from the cabinet to customers' premises are shortened to provide triple play (voice, video and data) services. As part of this project, Nepal Telecom has launched its much awaited Fiber to the Home (FTTH) service based on Next Generation Network Technology. Through this project, NT expects to meet the customer needs for higher bandwidth, reliable and higher quality service, and secure network. In this service, Optical Fiber, instead of traditional copper network, is installed up to the customer premises. Customers get high speed broadband internet service ranging from 1Mbps to 100 Mbps as well as IP-based voice services. Nepal Telecom plans to provide new multimedia services in the near future.

Notice Board Service is a Value Added Service that is based on the Intelligent Network (IN) platform. It is a supplementary service of PSTN Voice Mailbox Service in which the mailbox can be used as a Notice Board by the subscriber. The subscribers can record their notice board materials or information through their telephone (that is subscribed for Notice Board Service) so that when anybody calls that telephone number, the recorded notices or information is played. The recorded notices/information can be edited or deleted as required by the subscriber.

CDMA Service: CDMA service is getting popularity in rural areas due to unavailability of copper network based PSTN service and better signal strength than that of the GSM mobile. At present, NT's CDMA mobile has coverage in all 75 districts of the country. Since its inception in 2006, the company has been continuously expanding the reach of CDMA service and upgrading the system. To enhance user experience and provide its customers with quality service, NT launched IP-CDMA project with an aim to increase company's wireless customer base and service expansion to remote and extremely remote areas. After upgrading to IP-CDMA, Nepal Telecom has started distribution of Evolution Data Optimized, Revised A (EVDO – REV A) incorporated RUIM card for high speed internet connectivity. Through EVDO service, customers can access broadband internet at the rate of 3.1 Mbps downlink and 1.8 Mbps uplink which has been the main attraction of IP-CDMA service. However, in areas devoid of EVDO service, customers can access the Internet through Packet Data Serving Node (PDSN) at the rate of 153.6 Kbps. Nepal Telecom is promoting EVDO service by the brand name "SKY PRO" and is giving continuity to the replacement offer wherein subscribers can replace their earlier version RUIM card (only with voice

service) with EVDO enabled RUIIM for free.

Considering increasing popularity of EVDO, Nepal Telecom has started various volume- based data packages. Active subscribers of CDMA service can purchase data package as per their requirements by simply sending text message to 1415 as below:

data 200 MB for 200 MB data package data 500 MB for 500 MB data package data 1 GB for 1 GB data package data 3 GB for 3 GB data package.

Internet Service: to contribute in the nation's telecommunication development through data communication, Nepal Telecom had launched Fixed-Line based dial-up internet service in the year 2000. Along with the growth in subscriber base, NT is continuously upgrading the technology to provide superior browsing experience to its valued customers. Following the technological evolution and to meet customers demand for faster and better connectivity, Nepal Telecom at various points in time started internet service through GPRS for GSM mobile customers, ADSL internet for wire line subscribers, GSM based 3G services, IP-CDMA based EVDO services and WiMAX as the wireless broadband internet service on 4G technology. Nepal Telecom believes that its contribution in the field of data communication is significant can't in minimizing the prevalent digital divide and materialize the vision of digital inclusion.

ADSL Service: Nepal Telecom has launched ADSL 2+ technology based broadband internet service in the year 2008 from Kathmandu Valley and this service is now available in all 75 districts of the country. ADSL 2+ technology is a type of Digital Subscriber Line (DSL) in which data rate on downstream can reach as high as ten times the data rate on upstream.

This helps to meet the demand of high speed data downloads. ADSL service is provided by use of existing copper cable network infrastructure. ADSL broadband internet service is characterized as “always- on” data connection wherein the voice and data services are simultaneously available. This service has the capability of minimum download speed of 192 kbps up to 2 Mbps to an individual PSTN subscriber of Nepal Telecom. ADSL is one of the low-cost, high-value services that NT is providing due to the fact that subscribers are not billed for additional call charges during internet access like in the dial-up service. Telephone line (voice) will continue to work even in case of power failure in CPE (customer premises equipment) at subscribers end and subscribers can share broadband connection with multiple users by creating their own LAN and WLAN network. ADSL service is available in volume- based and monthly unlimited packages.

WiMAX Broadband Internet Service Launch of the WiMAX broadband internet service by Nepal Telecom marks the beginning of Fourth Generation (4G) internet service in Nepal. With an aim to provide minimum 256 kbps broadband internet service in all VDCs and Municipalities of the country, Nepal Telecom has launched WiMAX (Worldwide Interoperability for Microwave Access) service since 12 November 2012 from Kathmandu Valley and is now available in various locations in all development regions. Nepal Telecom believes that the launch of WiMAX service in Nepal equips the company with the technology which is most recent to the global trend for qualitative enhancement of data services throughout the nation. WiMAX offer wireless broadband internet service with greater flexibility anytime, anywhere using any WiMAX enabled devices, be it a laptop, desktop modem, digital phone or even a gaming device.

Most of PEs in Nepal is suffering from the loss situation NTC is only such PEs which is operating under the net profit is in every fiscal year from establishment .NTC is the top most income tax payer enterprise payer in Nepal. Telecom is providing modern telecommunication services to the Country and other it is operating in Profit contributing in the government revenue by various ways.

1.1.3 Role of Nepal Telecom

Telecommunication is one of the most quickest, cheapest and scientific means of communication in the modern world without the facility of telecommunication government could not run the economic governmental and development activities other means of communication such as postal services ,transportation etc. is slower ,expensive and less convenient but the telecommunication is reliable means of communication. It brings coordination among different government entities, which ultimately promotes administrative efficiency can be expected to enhance the productivity of the government decision and a better utilization of society and resources as well as mobilization of labor force for the achievement of national goals.

Telecommunication links to overseas countries, which helps I the development of tourist industries, main sources of foreign exchange earnings, Not only it contributes in national economy, but also helps to bring national unity among the national and international people creating brotherhood relationship among the people. Telecommunication has also contributed a lot for development of social condition of the country because it is a means of the social condition of the accumulation, earnings and transport of knowledge between people.

In the developing country like Nepal, without contributions of telecommunications in development of the country cannot explain. In Nepal there is not only any sector where telecommunication has not played role. The effects of telecommunication on the rural areas and their contributions to rural development are potentially important, yet rather different to measure. NTC has played an important role in agriculture sector also by providing information on prices and market situations. Therefore telecommunication has played a wonderful role in developing and developed countries to develop and to attain national objectives.

1.2 Statement of the Problem

Without financial resources, domestic resources cannot be mobilized It puts a heavy break on the overall development. This problem is increasing very rapidly in Nepalese economy. So, this problem can be solved by income tax and bridge the gap of resource mobilization. At present, Nepalese tax system is facing several problems such as tax evasion, poor tax administration and unsound income tax collection. Because of the tax evasion habit of Nepalese people, role of PEs towards income tax revenue is very justifiable. Income tax should be adopted as a fiscal instrument in government revenue which helps to achieve the goal of national development. But the majority of PEs is unable to deliver their expected services. Productivity and returns are very poor. Financial positions of PEs are unsatisfactory and are likely to become an increasing burden to the government. They cannot even maintain their books of accounts, unaudited financial statement, intention to hide their ability to pay tax, low level of morale and honesty etc. The study tries to answer the following research question:

-) What is the trend and structure revenue of government of Nepal?
-) What is the tax payment trend of NTC?
-) What is the financial growth pattern of NTC?

1.3 Objectives of the Study

This study has been carried out with some objectives. The main objective of the study is to analyze the effectiveness of income tax on revenue generation in Nepal and give appropriate suggestions to improve the tax system so that the government can collect more revenue and use it in the way of economic development of the country. The specific objectives of this study are as follows.

-) To analyze the trend and structure revenue of government of Nepal.
-) To analyze the tax payment trend of NTC.
-) To analyze the financial growth pattern of NTC.
-) To provide valuable suggestions for efficient implementation and improvement of tax in Nepal with reference to NTC.

1.4 Significance of the Study

Tax plays a significant role in the overall economic development in developing countries whether in developed and developing countries. Tax occupies a very important role in overall revenue structure. In the world the share of tax in the overall revenue structure is increasing because of its importance for the betterment of the country. Nepal can fulfill its financial needs by increasing its revenue through income tax earnings. The contribution of PES towards tax revenue should be increased. It

provides information on about income tax revenue collection from public enterprises and also provides information about tax revenue collection from Nepal Telecom.

This study has been significant for the following groups and individuals.

-) It provides the literature to the researcher who wants to carry on future research in this field.
-) It has been useful for personnel's and customers of Nepal Telecom.
-) It explores the problems and potentialities of Nepal Telecom.

Therefore, this study not fulfills the gap but also provides the knowledge of tax planning system.

1.5 Limitations of the Study

The present study is not free from the limitations. Although efforts have been made to make this study more realistic, practicable and informational for all the people, the study is suffering from the number of limitations. This study is mainly based on secondary data.

The study is focused on the Nepal Telecom only. So, the findings might not be applicable to other public enterprises. The study has been conducted in a year. So there is a limitation of time.

1.6 Organization of the Study

This thesis study has been divided into five main chapters which are as follows. First Chapter covers the background of the study, significance of the study objectives of the study, statement of the problems and limitations of the study. Second Chapter has included two main aspects

Conceptual frame work and Review of related studies. It includes review of thesis, books, articles and reports with findings and recommendations. Third Chapter deals with research methodology adopted for study consisting research design, population and sampling, sources of data, data collection procedure, data analysis procedure and uses of tools for analysis Fourth Chapter is concerned with systematic presentation, analysis and interpretation of data various financial and statistical tools and techniques have been used. This Chapter also focuses open-end options and main findings of the research. Fifth Chapter has devoted to summarize the whole study and conclusion was drawn based on the major findings. Recommendations have also presented. At last, Bibliography, Appendix and other supporting documents are enclosed.

CHAPTER II

REVIEW OF THE LITERATURE

2.1 Introduction

Review of literature is an essential part of all studies. It establishes a point of departure for future research. The purpose of reviewing the literature is to develop some expertise in one area to see what new contribution can be made, and to receive some ideas for developing a research design. Thus, the previous studies have been consulted. The relevant findings, issues, arguments and suggestions are included to go further in depth of the study. In other words, there has to be continuity in research. This continuity in research is insured by linking the present study with the past research studies.

2.2 Theoretical Concept

Tax is a necessary payment to the government. Tax is a compulsory payment to government for the compensation of public expenditures. Tax payers do not get any direct benefit from the state by paying tax. Tax fulfills the needs of central or local government to spend for philanthropic work. Equal distribution of wealth and income is the main objective of tax. Taxes are compulsorily levied on individuals, firms, companies and other units for government purpose – government personnel's with authority assigned by different laws generates some funds from individuals, firms, companies and other units, which are generally termed as taxes. According to classical economist state”

According to classical economist Dalton, A tax is a compulsory contribution imposed by a public authority irrespective of the exact

amount of service reserved to the tax payer in return and not espoused a penalty for any legal offence.

According to Thomas, A Tax is a compulsory charge imposed by the state or public authority in respect of which no specific service to individual is rendered in return.

According to Taussing, The essence of a tax, as distinguished from other charge by the government, is the absence of direct quid pro quo, between the tax payer and public authority.

In classical economics, tax was taken as an extra burden to people. But now time has changed and government has to provide maximum social welfare to the people.

In the modern world, whether it is a developed or developing country, income tax is regarded as the most important instrument for the internal source mobilization of the country. Income tax is the most important source of revenue in developed country but contribution of income tax is low in developing countries. The popularity of income tax is growing much more in developing countries.

Every country has its own taxation policy constituting different rates of tax to be levied and collected against any business or activity carried out within its territory. Just and impartial treatment to similar business entity and individuals is primary motive of tax laws. However, there arises certain situation in which a positive discrimination becomes much demanding that the state cannot escape from. The separation of treatment to different sector, geography, businesses and individuals with expectation of positive impact is always the priority of the government. These additional facilities, that lower the tax burden, provided to

comparatively small population of taxpayers is termed as tax incentive.

In Nepal, income tax is defined as the tax levied on net income derived after deducting all allowable deductions and reliefs from the total income. Income tax is always levied on net income i.e. total income less the allowable deductions.

“Taxes are what we pay for civilized society” Income tax can be classified into two types: Personal/ individual income tax and corporate income tax, Individual income tax is modeless tax which is measure of ability to pay of any individual. It is based in progressive rate. Corporate income tax is levied on business enterprises having a legal personality, distinct from their owners. Generally flat rate is applied to corporate income tax.

2.3 Review of Related Studies

Since 1959/1960, Income tax was started in Nepal after its establishment. Many individuals and institutions have studied in this subject regarding legal aspect administrative problems, historical aspect, trend of income tax and income tax structure etc. They have made appreciable efforts in the field of income tax.

Many books, articles and newspapers reviewed while preparing this thesis. Many books in this field are written to fulfill the course requirement of the Tribhuvan University. An attempt is made here to review some of the books, thesis, articles and reports, which have been written in the field of income tax in Nepal.

2.3.1 Review of Books, Reports and Articles

Amatya, Pokharel and Dahal (2004) wrote a book entitled “Taxation in Nepal”. Amatya, Pokharel and Dahal had described the provisions made under income tax laws. This book is divided into 31 chapters. They had described about income tax and its development in Nepal, tax accounting, qualification, allocation and characterization of amounts, exemptions, concessions facilities and tax rates, expenditure expressly disallowed for deduction , capital or revenue incomes and expenditure, special provision for natural person and entity, income heads and sources, income from employment income from business, set off, carry back and carry forward of losses, income from investment, net gain from disposal of assets and liabilities and capital gain taxation, total assessable taxable income and tax liability, international taxation, total assessable income, taxable income and tax liability, form of documentation, PAN and maintenance of documents. Income return and tax assessment, payment, collection and refund of tax administration, rights and duties of tax payers and other persons penal provisions, appeal, property tax in Nepal, value added tax in Nepal right and duties of tax payer etc. This book has been written to fulfill the course requirement of Tribhuvan University. It is based on the syllabus of Bachelor Level of Management, Law and CA and it is also for Master Level of Management.

Aryal and Paudel (2003) wrote a book entitled "Taxation in Nepal". This book is based on ITA 2002. This book is divided in three parts. It has described about the tax features of ITA 2058, capital receipt or revenue receipt, special provision for entities and retirement saving, classification of tax payers, and sources of income, assessment, collection and recovery, tax authorities and their powers, right and duties etc.

The contribution of income tax to direct tax has increased significantly

since its introduction. In terms of the composition of income tax the share of corporate income tax was 59.8% and that of individual income tax was 31.2% in 1999/2000. She had hoped that the coverage of income tax would be widened after the implementation of income tax act 2001.

She had added that the Nepalese tax administration had been attempting to modify itself to meet the pressing challenge brought about by change in technology and economic policies. However, still its working is traditional and the cost of administration has both been brought to the satisfactory level.

Kandel (2001) has criticized the Income Tax Act 2002 on several grounds. Exemptions of agricultural income from income tax, export duties levied on export, inequality between different capital earned income i.e. tax on interest, dividend and capital gain with drawl of the provision of exemption. Suddenly and no adjustment for inflation are the major issues he raised in his article he also said that tax regime creates more burden than the former one.

In 2059 B.S, Bishowdeep Adhikari has published a book named "Income tax law: Then and now". He had described the legal provision of new Income Tax Act, 2058. He also had described the decisions made by Supreme Court about the Income Tax Act, 2058. He had also described the legal provision with critical analysis. His book was very useful to know the new Income Tax Act, 2058 but had not analyzed the role of income tax and income tax structure.

Adhikari (2003) wrote a book entitled "Modern taxation in Nepal". Adhikari had described the provisions and laws related to income taxation of Nepal according to new ITA 2002. This book has been divided into

five chapters. First chapter has described about theoretical concept of taxation. Second chapter has described about income tax system in Nepal. In this chapter the writer has described about heads and sources of incomes, employment or remuneration income tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been describes about property tax house and compound tax etc. wind fall gain tax and other provisions have been described in fifth chapter. This book is written for students of TU, especially for BBS, MBS and MPA students. However, it is useful to tax payers, tax administrators and others.

Mallik (2003) wrote a book entitled "Nepal ko Adhunik Aayakar Parnali". Mallik has described about provision made under income tax law and methods of income tax assessment. This book has divided into twenty five chapters. Mallik described about development of income tax system in Nepal, computation of income, exempt amount, capital gain special provision regarding natural person and entities, international tax, tax administration, Payment of tax, Tax on VAT assessment of depreciation etc. His book is more helpful to know about general information and provision made under income tax act 2002.

Bhattarai and Koirala (2004) in their book "Tax laws and Tax Planning" described the theoretical and practical aspect of income tax with related provisions. It was based on TU syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

Kandel (2003) wrote a book "Tax Law and Tax Planning in Nepal" which is based on government regulation and therefore is a very timely work and extremely helpful for students of Master and Bachelor of Business Studies. This second edition has attached unofficial translation of the tax

laws-both acts and rules related to value added tax and income tax appendices. But he had not analyzed the role of income tax, tax structure and problem of income tax.

Dhakal (2001) had presented his enlarged and modified edition of his book including VAT. This book was presented by TU syllabus of BBS and MBS. He had described the legal provision relating to income tax with numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem and weakness of income tax.

Shrestha (1981) in her study "Income Tax Nepal" had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax she has also described per capita burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reason of tax evasion more low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment widespread illegal business activities etc. She found that the tax administration is not efficient. Although she had given various useful suggestions about the income tax like, scientific method should be applied for the collecting of tax, administration should be made efficient, income tax law should be simple and easy, tax base should be broader etc. She had mentioned the legal provision relating to income tax and empirical investigation.

Singh (2002) had conducted a research entitled "A Study on Application of Best Judgment of Income tax assessment with reference to ITA,1974" need provision and the role of best judgment in income tax assessment

are the objectives of the study. In this study he found that in Nepal, income tax assessments are mainly performed by committee. The data shows that above 70 percent of the total income tax assessment are finalized by the committee. He also found that only 9.01 percent of the total income tax assessments were performed on the basis of account in 1990/91, which was 10.49percent in 1991/92. In 1999/2000, its share remained only 3.89 percent of income tax assessment. He also discussed on the income tax assessment of Nepal, basis of assessment, necessary condition for the best judgment assessment natural justice and best judgment etc in this study.

Agrawal a senior research officer of CEDA had conducted a research on a topic; "Resources mobilization for development. The reform of income tax in Nepal" CEDA Kathmandu published this report in 1978. This study focused on the various aspects of income tax in Nepal. Some of the important objectives of this study were as follows.

-) To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.
-) To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
-) To examine the ways and means for increasing tax consciousness in the Nepalese public.

Some remarkable findings and recommendations of the reports were as following.

-) Income tax has been a fast growing category of tax revenue in Nepal.
-) The individual tax payers contributed more than 50% of the total income tax revenue.

Recommendations

-) Additional domestic resources should be mobilized through taxation
-) Tax structure of Nepal needs to be redesigned in order to increase the role of direct tax.
-) Income tax should be reformed in Nepal

The Revenue consultation committee had studied the overall taxation situation in 2001. This report suggested widening the income tax base by including all kinds of tax payer and find out the tax payers of new sector. The report suggested making the income tax act more transparent and clear in order to attract foreign and domestic investors. This report suggested implementing account based VAT more effectively. For small tax payers having up to Rs.2 million, tax collection should be based on the sale and purchase description. For income taxation, self assessment was fully recommended. Income tax exemption limit was suggested to increase taking into consideration of purchasing power and inflation. The report also certified Rs. 55,000 for individual and Rs. 75,000 for couples and family as exemption limit. The report gave suggestion for Nepal government to introduce the permanent account number (PAN) outside the valley and reduce the land house registration rate and to rationalize the tax deduction at source (TDS).

Singh (2006) had conducted a research entitled “A study on Application of Best judgment of income tax assessment with reference to ITA, 1974” need provision and the role of best judgment in income tax assessment are mainly performed by committee. The data shows that above 70% of the total income tax assessment is finalized by committee. He also found that only 9.01% of the total income tax assessments were performed of

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Pradhan (2006) studied basically concerned with historical background, contribution of income tax to the public revenue, contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found that the contribution of income tax from public enterprises in Nepal was not significance due to the 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 of 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 237 % ,15.60% and 1.93 in her study period. Her suggestions about income tax system were clear cut collection provision should be made clear and simple, provision of reward, prize., incentives should introduce to encourage tax payers today voluntarily, compulsory provision of auditing etc. for the improvement of income tax administration in Nepal, she had suggested promotion and reward to active efficient and honest tax preserved, tax education to tax payers ,strict acting against corruption of delays in tax assessment, Especially, her study had focused of the study on Nepal Telecommunication Corporation.

Adhikari (2011) assessed the distributional characteristics of Nepalese tax system in relation to ability to pay by utilizing the Nepal Living Standard

Survey (NLSS) data of 1995/96 and 2003/04. The Concentration and Kakwani indices were used to measure the tax incidence. Indices suggested that direct taxes were consistently progressive. The progressiveness was stronger in NLSS 2003/04 than NLSS 1995/96. The economic burden of indirect taxes was not concentrated on the better off as the paper found in direct taxes. Indirect taxes appeared almost proportional; however, after introducing VAT, it seemed regressive although poor rural households in Nepal consumed local or home products that were not subject to taxation. The results suggested that indirect taxes were also responsible to increase the income inequality in the country.

Acharya (2015) has published the report on Revenue Scenario under Customs Administration of Nepal (2064/65 to 2070/71). The objective of this study is to provide general trend of major revenue components namely export duty, import duty, value added tax (VAT) and excise duty collected from Department customs of Nepal. Collections of revenue through customs points are the major sources of data for this analysis. The study is basically based on the secondary data provided by Department of Customs, and Economic Survey, Ministry of Finance. Trend lines and tables were used to show the tax scenario for last six fiscal years. Data were readily available for last six fiscal years in the department of customs; therefore, a six year period was chosen for this study. Trend lines by months and years of each tax component are shown in this assessment. Trend lines by customs points are also provided that will help to set target of tax collection and to improve the tax administration. Tax effort ratio that is the relationship between tax revenue and GDP is also provided to give the nation national picture. It shows the amount of GDP collected on the form of revenue. It shows the

burden of tax for the country as well.

Shrestha (2010) presented a paper under the heading "Challenges and Reforms of Nepalese tax system" and described the history of income tax in Nepal. He analyzed that the income tax came in concept in 2008 and the fiscal act 2016 has made a provision to collect income tax from trade profit and remuneration. The income tax act 2019 has the provision to collecting tax from the all types of income sources. The Income Tax Act, 2031 has classified the source of income tax as agriculture, industry sector, trade, profession, business, remuneration, house, land and other source of income. He has described the reform of income tax in Nepal as follows:-

-) Reform as a part of civil service or bureaucratic reform
-) Reform in government policies and programs
-) Implementation of different recommendations given by different research report and committee
-) Change in tax rate and bases
-) Reform in working procedures

He has also mentioned some international support for the tax reform in Nepal in his paper. He has described that the Harvard Institute for the International Development (HIID) and USAID has done financial and technical support for the reform of tax system in Nepal. Likewise, the Income Tax Administration Consolidation (ITAC) project under the support of GTZ has given financial and technical support for income tax reform in Nepal. After the unification of administration of income tax and VAT the DANIDA and GTZ has lunching the Revenue Administration Support (RAS) Project. Now IMF and World Bank are supporting for the

tax administration. He has presented the following points as underlying principle of tax reform agenda in Nepal.

-) Equality and fairness
-) Certainty
-) Simplicity
-) Transparency and visibility
-) Convenience of payment
-) Neutrality
-) Minimum tax gap
-) Economy of collection
-) Economic growth and efficiency

He has also described some measure for the effective implementation of these agenda as below:-

-) Functional and professional organization structure
-) Efficient human resources
-) Simple working procedure
-) Using ICT in tax administration
-) Competitive management approach
-) Performance base incentive/pay system

2.3.2 Review of Dissertations

This sub-chapter is concerned with the previous research works done by different scholars in the field of income taxation.

Suwal (1981) conducted a research work on income tax system in Nepal. She had studied the importance and problem of income tax in solving financial resource gap problem in Nepal. she has discussed the trend of

income tax and effect of income tax on production in Nepal. She has suggested some factors like increasing tax consciousness to the taxpayers, clear and comprehensive definition of the incomes for improvement to HMG regarding income tax and tax administration for effectively collection of income tax in Nepal.

Subedi (1982) conducted a research work on an analytical study of income tax in Nepal and analyzed the role of income tax on national revenue of Nepal. He has examined the growth of income tax collection, the ratio to GDP, cost of income tax collection and its elasticity. Historical Prospective and legal aspects of income tax has included in his study. Inefficient tax administration, dominate role of indirect tax and tax evasion are the problem of Nepalese tax system, he pointed.

Ghimire (1993) wrote a thesis entitled "Principle of Direct Tax and Provision of Direct Tax " had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, in tax of income tax in Nepal, contribution of tax income to national revenue errors of past provision, some steps of administrative improvement etc. he found that the tax covered very low portion of total revenue because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. he had also noticed some errors of provision relating to income tax. They were progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holyday and rebate, provision of low additional fee as compare to market interest rate etc. he also suggested some step of administrative improvement. They were provision of income assessment committee fleet rate of tax to small tax

payer's establishment of tax office etc.

Regmi (2043) carried out a study in the role of income tax in Nepal. In the study, he had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problems of income tax. He had more concerned on the study of tax structure of Nepal. In his study, he had found that the share of indirect tax was more than 70% of total tax revenue.

Lack of proper record keeping by taxpayers, assessment delay, lack of responsibility and honesty among the tax officer, tax evasion and corruption, lack of coordination between revenue and other non revenue department and leakage on personal income tax collection were the problem of income tax in Nepal, he identified in his study. His suggestion were; income tax law should be clear and precise, widening the tax coverage, application of scientific assessment method, simple and easy procedure of tax payment, honest and efficient staff, coordination between staff and departments establishment of research unit and tax holidays for new industries.

Siwakoti (1986) conducted a research work on an analytical study of income tax in Nepal. He had described the role of income tax, income tax in tax structure of Nepal, personnel management aspect of tax department, legal aspect of Income Tax Act, 2031 and problems of income tax administration in Nepal. He has identified the role of income tax as economic growth, equitable distribution and stabilization growth. His finding was the share of income tax to total tax revenue was nominal,. Regarding the personnel management aspect, he has found that the department has not well trained and expert personnel. There were no

any training and development activities to the personnel and workload distribution was uneven.

He had identified the major problem of income tax system as defective personnel management, lack of public information, delay in tax assessment, nominal role of income tax etc... Some of the problems are still exist at now. He also highlighted the problems of Income Tax Act, 2031.

Baral (1989) carried out a study on income tax in tax structure of Nepal. She had discussed the contribution of income tax in tax revenue and total revenue of Nepal. Decreasing trend of direct tax and increasing trend of indirect tax contribution is shown on her study. She has found lack of clear and comprehensive definition of income, tax consciousness, efficient tax administration, scientific method of tax collection, punishment of the tax evaders are the main cause of income tax evasion in Nepal.

Bhandari (1994) tried to examine historical background, tax structure of Nepal and contribution of income tax to economic development of the nation. He has found that the actual collection of revenue through income tax was lower than its estimate targets because of poor taxpaying habits of Nepalese taxpayers, poor tax administration system and wide spread evasion of income tax. He had given suggestion to make effective personnel management, proper tax education and communication, reducing collection costs and minimizing tax evasion practices etc...

Shakya (1995) conducted a research work on income tax in the structure of Nepal. His studies were done with basic objectives of analyzing the

causes of heavy reliance of indirect taxes, analyzing the volume of indirect and direct tax revenue in total tax structure, highlighting the revenue assessment procedures from different source and suggesting improving them. In his study, he had identified that income tax had occupied fourth position among the tax revenue of Nepal. Custom duty, sales tax and excise duty has occupied first, second and third position respectively. He had highlighted that the taxable capacity of Nepali people is limited by various factors such as low per capital income, extensive subsistence economy, relatively closed economy, weak export position etc.

He had found that the ratio of income tax to GDP, total revenue. Total tax revenue and direct tax revenue has been increasing trend in Nepal. However, increasing rate is very low in comparison to other countries. Tax evasion is the main reason behind it. Lack of clear and comprehensive definition of income, lack of appropriate punishment to the tax evader, low tax paying capacity and non-conscious of tax payers, lack of inefficient tax administration, lack of scientific method of tax collection and trained tax collector were the reasons of income tax evasion in Nepal, he identified in his study.

Shahu (1995) conducted a study on contribution of income tax in national revenue of Nepal. The role and contribution of income tax in the economic development of Nepal was focused on the study. He found indirect taxes like customs, excise and sales tax occupy first, second and third rank respectively. Income tax occupies the fourth rank in revenue composition of Nepal.

Tripathi (1995) has written a thesis on income tax system of Nepal and

some potential areas for reforms. Government revenue, income tax revenue, income tax administration, personnel tax administration, efficiency in income tax collection, income evasion, tax assessment and efficiency of income tax system has described in his research. The study was firmly depended on Income Tax Act, 1974 and had emphasized on the income tax administration and tax evasion. He had suggested increasing the exemption limit for remuneration taxpayers. Furthermore, he had suggested the education expenses of children not exceeding Rs. 10,000 per year, house rent allowance up to Rs. 12000 per year and actual education expenses of the taxpayer him/herself if he/she is studying further education should make deductible while ascertaining remuneration tax. His study found very useful for the study of income from remuneration.

Pant (1996) conducted a study on income tax management in Nepal. He stressed various problems of Nepalese income tax management system. Lack of effective personnel management, week income tax assessment procedures, poor reward and punishment system, lack of taxpayers' education, poor tax information system, narrow coverage of income tax were the problems of income tax management in Nepal, he identified in his study. He pointed that well managerial efficiency was the major problem of income tax management of Nepal.

Kandel (2000) also presented PhD thesis entitled "Corporate Tax system and Investment behavior in Nepal. He undertook the research work to fine out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of this study were to evaluate the corporate tax system in general, to examine of sensitivity of certain policy like inflection capital gain, dividend tax and

interest tax etc, based on their impact on tax burden. He showed the relationship of private investment with average effective tax rate (AETR), marginal effective tax rate (METR) and tax incentives of Nepal.

Shrestha (2001) wrote a thesis entitled "Revenue collection from income tax in Nepal, problem and prospects" described the conceptual framework and legal provisions, structure of income tax in Nepal, income tax administration in Nepal: an empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend. She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of the consciousness of tax payers unscientific tax assessment procedure, widespread evasion and avoidance of income tax, inefficient tax administration instability in government policy etc. She had taken 60 people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation coefficient to prove the hypothesis on the problem of income tax system. Although she had suggested about the income tax system like extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to the people, she had taken any investigation about the provision of fine and penalties.

In 2053 B.S., Paremehswor Panth has presented a dissertation named "A study on income tax assessment". He had described the role of income tax in national economy and income tax management in Nepal. His findings of the major problem of income tax in Nepal were lack of managerial efficiency, which is more important aspect as present also. He had highlighted on management aspect. He had suggested revision the

exemption limit. He had suggested providing exemption limit of Rs 40,000 to Rs. 50,000 for a couple and Rs.60, 000 for a family. He had suggested to treat the agricultural income and capital gain as a subject of income tax.

In 2054 B.S, Krishna Prasad Timilsina has presented a dissertation named "Tax structure in Bajhang district with reference to national tax structure of Nepal". He had conducted a comparative study of tax structure. His finding about the correlation coefficient between Bajhang and nation was positive on tax revenue, non tax revenue and total revenue.

Timilsina (2001) wrote a thesis on personal income taxation in Nepal: A study of exemption and deductions. He has analyze the system of tax exemption and the deductions and suggested to improve tax system so the government can collect more revenue. He has suggested reintroducing standard deductions, different exemptions for couple considering dependents, increasing trend of income tax and personal income tax revenue and increased moral of tax officials. Furthermore, he has suggested adjusting exemption limit based on inflationary condition of the nation.

Shrestha (2001) has conducted a research on revenue collection from income tax in Nepal focusing problems and prospect. She has described the conceptual framework, provision, structure of income tax and tax administration in Nepal. She has also done an empirical investigation on problem and prospect of income tax in Nepal. Mass concluded that the effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of tax management strong political commitment is most.

Sutihar (2013) had made a study or contribution of value added tax in Nepal during FY 2000/01 to FY 2010/11 and estimated the share of VAT to GDP was 2.80% to 4.50 in GDP and annual growth was found to be Rs.8893.7967 Million. He had also estimated the share of other services (hotel tax, entertainment tax and aviation tax) was 32% in the VAT collection on FY 2010/11.

Sutihar (2016) has made a study or trend of the value added tax in Nepal. He has estimate the share of VAT in GDP, Total Tax revenue and indirect tax revenue. He has also estimate the growth rate of Vat during 2000/01 to 2014/15 and share of VAT to GDP, total tax revenue and indirect tax revenue was from 2.80% to 16.0%, 30.69% to 37.63%, and 39.94% to 50.05% respectively. He has showed that annual growth rate of VAT was found to be Rs.6.63 Million.

Koirala (2008) carried out a study on the topic “Effectiveness of advance taxation on income tax generation in Nepal”. The objective of the study were: to evaluate the feasibility and effectiveness of advance taxation in income tax and overall revenue generation in Nepal, to examine the current position of advance taxation is also one of the tax assessing and tax collection procedure as per Income Tax Act, 2058. Income Tax Act, 2058 has absolutely embraced the self assessment system abolishing existing assessment system. Small tax payers are imposed the on the presumptive system. The Act has made provision of amended assessment to adjust the assessed person's liability to tax. Main source of thx and the individual sector carries less than 20% of the advance tax on total tax collection. The contribution of the advance tax on total tax revenue was very poor but contribution on income tax is increasing in recent year.

Subedi (2007) carried out a study on the topic “Employment income tax system of Nepal and its contribution to revenue collection”. The main objective of the study were to analyze the trend of revenue collection from employment tax, to analyze the contribution of employment income tax on total tax revenue, direct tax and indirect tax revenue of Nepal, to identify difficulties faces by tax payers in complying with tax procedure. During the study he found that the rule and provision of employment income taxation are complicated for average tax payer and IRD has not been able to provide adequate knowledge to tax payer, contribution to employment tax has not been satisfactory.

Devkota (2010) carried out a study on the topic “A study on corporate tax contribution on government revenue in Nepal”. Objective of the study are status of corporate tax and to explore the tax collection in different corporate sector, explore the problem and challenge in corporate tax procedure, provide and package of suggestion to tax avoid and tax evasion to corporate sector. The conclusion tax avoidance is the reduction of tax liability through the main potation of existing law. It is legally permissible but unethical.

Subedi (2007) carried out a study on the topic “Effectiveness of remuneration tax in Nepal”. The objective of this study was: to identify the major problems and weakness of remuneration tax in Nepal to check out the major facilities and benefits provide by Income Tax Act, 2058 on the remuneration tax. He has found the contribution of remuneration tax in total income tax revenue of Nepal has not been found satisfactory due to unfair and weak administration, complexity in income tax policy, rules and regulation, no provision of expenditure; it is high burden to tax on

low level income earners. He has also found that current exemption limit for the senior and disable citizen should not be necessary more than that of other citizen.

2.4 Research Gap

There is the gap between the present research and previous researches conducted on tax planning. They were either a case study of a particular company or a comparative study of two different companies.

All the research studies mentioned above are concerned with study of law, provisions, administrative aspects and the structure of tax. Most of them have indicated the inefficiency of tax administration. But major studies were based on theoretical facts of tax administration. They have identified the problem of income tax evaluation at high level and suggested for its control.

PE's are the backbone of the economy. The contribution of income tax from PE's plays vital role in the economy. Here, NTC is the main enterprise to contribute more tax revenue to government. The precious researches did not study about contribution of income tax from PE's with reference to NTC.

Besides these, contribution of tax from PE's with reference to NTC, to government revenue has also been out done analytically. Likewise, structure of NTC to public revenue had been studied analytically and intensively by this research

CHAPTER III

METHODOLOGY

3.1 Theoretical Framework

Research is a systematic and organized effort to investigate specific problems. This process of investigation involves a series of activities of gathering recording, analyzing and interpreting the data with purpose of finding answers to the problem. The research has two important aspects. First, it is sufficiently broad requiring solvating to a problem, Secondly; it explicitly recognizes the systematic research process in which data are gathered recorded, enclosed and interpreted in order manner.

Thus, research methodology is the process of bringing to the solution of problems through planning and systematic dealing with the collection, analysis and interpretation of the facts and figures. It reports to the various sequential steps to be adopted by a researcher, who is staring problem with contain object in a view. The objective of the study is to analyze the tax planning and to analyses the contribution of income tax from Nepal telecom to government revenue.

3.2 Research Design

Research design is an overall framework or plan for the collection and analysis of data. Research design focuses the data collection methods, research instruments utilized and sampling plan to be followed. The research design is the conceptual structure within which the research is conducted. Hence, the research design is a plan, structure and strategy for investigation of the facts in order to activate the conclusions. This study is basically based on the secondary data. Hence both descriptive and

analytical research designs have been used to conquest the contribution pattern of tax from NTC to government revenue of Nepal.

3.3 Sources of Data

Secondary data have been collected in order to active the real and fateful result out of this research. All the possible and useful data as far possible have been collected. The secondary data have mostly been collected through books, articles, newspaper and reports. The major sources of secondary data are as follows:

-) Economic surveys and budget speech of various years, Ministry of Finance.
-) Annual Reports and records of NTC.
-) Publications of Inland Revenue department.
-) Books related to public enterprises.
-) Reports and records of Inland Revenue Department, Ministry of Finance
-) Dissertations related to taxation available at Central Library, TU and library of Prithivi Narayan Campus, Pokhara.

3.4 Data Collection Procedure

Secondary sources were first processed for tabulation and analysis. For, the purpose of analysis, simple statistical tools such as has been used line chart, pie chart, and percentage.

CHAPTER IV

DATA ANALYSIS

This chapter deals with the presentation, analysis and interpretation of the relevant data of taxation in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. Pant (1998) writes that a report can be worthless if interpretation is faulty, even if valid and relevant data have been collected.

The data after collection help to proceed and analyze in accordance with the outline lay down for the purpose at the time of developing the research plan. The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Giles studies (as cited in Kothari 2004) explores that data analysis is the relationship or difference supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion.

4.1 Trend and Structure of Government Revenue in Nepal

Government revenue of Nepal is comprised of tax revenue and non tax revenue. The tax revenue consists of customs, tax on property, profit and income. Similarly non tax revenue includes charges, fees, fines and forfeiture, receipts from sale of commodities and services, dividend, royalty and sale of fixed assets, principal and interest payment and miscellaneous items. The structure of government revenue in Nepal has been presented in table below.

Table 4.1
Structure of Government Income in Nepal

Income Head	Tax Revenue	Non Tax Revenue	Gross Revenue	Foreign Grants	Principle Repayment	Unaudited Account Recovery	Total Income
2010/11	17719.7	2114.8	19834.6	4592.2	144.3		24571.1
2011/12	21172.3	3665.2	24437.4	4081.2	18.7	261.2	28798.4
2012/13	25921.5	3680.6	29602.1	3523.0	75.5	192.1	33392.7
2013/14	31244.1	4418.0	35662.1	3396.0	57.0	573.4	39688.5
2014/15	35595.6	4991.1	40586.6	3637.4	208.2	609.0	45041.3
2015/16	42109.7	6086.5	48196.2	3247.8	1369.4	327.7	53141.1
2016/17*	32975.9	2515.2	35391.1	1029.8	1.1	247.8	36669.8

Source: Economic Survey 2016/17

*First Eight Month

#Foreign Grants as of NRB Fund Details of FY 2016/17

Government income of Rs. 366.70 billion has been mobilized in the first eight months of current fiscal year 2016/17. Shares of revenue mobilization, foreign grants, and principal repayment against the borrowing in total government income remained at 96.51 percent, 2.81 percent and 0.003 percent respectively in the current fiscal year. Likewise, the ratio of amount recovered from unaudited account to government revenue stood at 0.68 percent.

The government income had increased by 17.98 percent to Rs. 531.41 billion in FY 2015/16 as compared to previous fiscal year. The shares of revenue mobilization, foreign grants and repayment of principal against borrowing in total government revenue stood at 90.69 percent, 6.11 percent and 2.58 percent respectively in that year. A sum of Rs. 3.27 billion was recovered from unaudited account contributing 0.62 percent to total government revenue in the fiscal year 2015/16.

The contribution of revenue to total government income has continued to remain at 90 percent. However, the contribution of foreign grants to government's total income has continued to decline gradually since FY 2012/13. Likewise, the contributions of repayment of principal against borrowing and recovery from unaudited account have remained low.

2.30. Government income contributed about 88.4 percent to total government expenditure in FY 2015/16. Such contributions stood at 91.2 percent and 84.7 percent respectively in FY 2013/14 and FY 2014/15.

2.31. The contribution of foreign grants to total government expenditure that remained at 6.1 percent in FY 2014/15 went down to 5.4 percent in its subsequent year. Such contribution to government's total expenditure has been declining since FY 2012/13. Foreign grants of about Rs. 32.48 billion was mobilized in FY 2015/16.

Table 4.2

Structure of Government Revenue in Nepal (Rs in billions)

Revenue Head	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17*
Tax on Income, Profit and Capital Gains	4135	5130.3	6418.67	7561.36	8616.57	11413.8	7060.48
Tax based on Remuneration	71	155.5	188.06	244.99	292.58	326.98	254.18
Property Tax	357.2	358.8	534.02	667.11	939.94	1314.94	826.88
Tax based in Goods and Services	9479.3	11056.1	12927.1	15771.84	18002.52	20566.87	17724.61
Other Taxes	108.8	132.4	160.52	200.77	259.84	271.16	330.2
Net Tax Revenue	17722.71	21172.3	25921.5	31244.12	35595.57	42109.66	32975.91
Income from Assets	1296.4	1765.3	1760.84	2067.52	2270.87	2615.89	827.91
Income from the sales of Goods and Services	244.8	691.3	1124.7	1164.53	1223.06	1384.69	965.56
Penalties, Fines and Confiscations	13.4	31.6	33.82	45.28	125.43	78.89	42.6
Voluntary Handover except Grants	0.2	0.1	0.51	0.24	0.5	0.3	0.06
Miscellaneous Revenue	560.1	776.9	760.77	1140.39	1371.21	2006.73	579.02
Net Non Tax Revenue	2114.9	3265.1	3680.64	4417.95	4991.07	6086.5	2415.15
Net Revenue	19837.59	24137.4	29602.13	35662.07	40586.64	48196.16	35391.06

Source: Economic Survey 2016/17, * First Eight Month

The contribution of goods and services based taxes to total tax revenue averaged 50.4 percent while such tax contributed 44.03 percent on an average to the total revenue in last five years. The contribution of goods and services based tax to total tax revenue rose by 1.8 percent and reached 53.8 percent in the first eight months of current fiscal year as compared to that of 52 percent contribution in previous fiscal year. Such contribution to total revenue had stood at 50.1 percent in the first eight months of current fiscal year.

During the first eight months of current fiscal year, the contribution of income, profit and capital gain taxes and foreign trade based tax remained at 19.95 percent and 19.16 percent respectively. Such contribution during the same period of previous fiscal year stood at 21.30 percent and 17.98 percent respectively.

The contribution of income, profit and capital gain taxes and foreign trade based tax in total revenue remained at 23.68 percent and 17.05 percent respectively in FY 2015/16. Such contribution stood at 21.23 percent and 18.44 percent respectively in FY 2014/15. Property tax and remuneration based tax have contributed 2.34 percent and 0.72 percent respectively to total revenue in the first eight months of current fiscal year 2016/17. Contributions of such taxes had stood at 1.94 percent and 0.79 percent respectively during the same period of previous fiscal year. The contribution of other taxes to total revenue mobilization has remained at 0.93 percent during the first eight months of current fiscal year as compared to the contribution of 0.63 percent in corresponding period of FY 2015/16.

The contribution of property and remuneration based taxes remained at 2.73 percent and 0.68 percent respectively in FY 2015/16. Such contributions were recorded at 2.32 percent and 0.72 percent respectively in FY 2014/15. Likewise, the contribution of other taxes to total revenue mobilization dropped marginally to 0.56 percent in FY 2015/16 from such contribution of 0.64 percent of its preceding year. On non-tax revenue mobilization front, revenue of Rs. 8.28 billion has been mobilized from assets during the first eight months of current fiscal year 2016/17. Its contribution to total revenue mobilization stood at 2.34 percent in the same period. Similarly, revenue amounting Rs. 8.48 billion was mobilized from assets in the same period of previous fiscal year. Likewise, the contribution of revenue through sale of goods and services stood at 2.73 percent in the first eight months of current fiscal year against 3.67 percent contribution to total revenue recorded in the corresponding period of previous fiscal year.

In the first eight months of FY 2015/16, revenue earned from assets had increased by 15.2 percent to Rs. 26.16 billion as compared to the corresponding period of preceding fiscal year 2014/15. Its contribution to total revenue had remained at 5.43 percent in FY 2015/16. Likewise, the contribution of income earned through the sale of goods and services to total revenue stood at 2.87 percent in the same fiscal year. Such contribution was recorded at 3.01 percent in FY 2014/15. The share of fines and penalties to total revenue that averaged 0.13 percent in the fiscal years from 2011/12 to 2013/14 increased to 0.31 percent in FY 2014/15. Such contribution to total revenue stood at 0.12 percent in the first eight months of current fiscal year against 0.17 percent of the same period of its previous fiscal year. The share of fines and penalties to total revenue was 0.16 percent in FY 2015/16.

4.1.1 Tax Revenue and GDP of Nepal.

Nepal is one of the lowest taxed economies in the World. The moderate tax GDP ratio is ranged from 16% to 19% in other developing countries. Below presented table shows the scenario of tax GDP ratio for reference period of 2012/13 to 2016/17.

Table 4.3

Tax Revenue as Percentage of GDP (Rs in 10 million)

Fiscal Year	GDP	Tax Revenue	Non Tax Revenue	Total Revenue	Tax Revenue as % of Total of GDP
2010/11	136695.4	17719.7	2114.8	19834.6	12.96
2011/12	152734.4	21172.3	3265.2	24437.4	13.86
2012/13	169501.10	25921.5	3680.64	29602.13	14.51
2013/14	196454.0	31244.10	4417.95	35662.07	18.15
2014/15	213015.0	35595.60	4991.07	40586.64	19.05
2015/16	224742.70	42109.70	6086.50	48196.16	21.44
2016/17	259923.40	49463.85	3622.74	53086.62	20.42

Source: Economic Survey 2016/17.

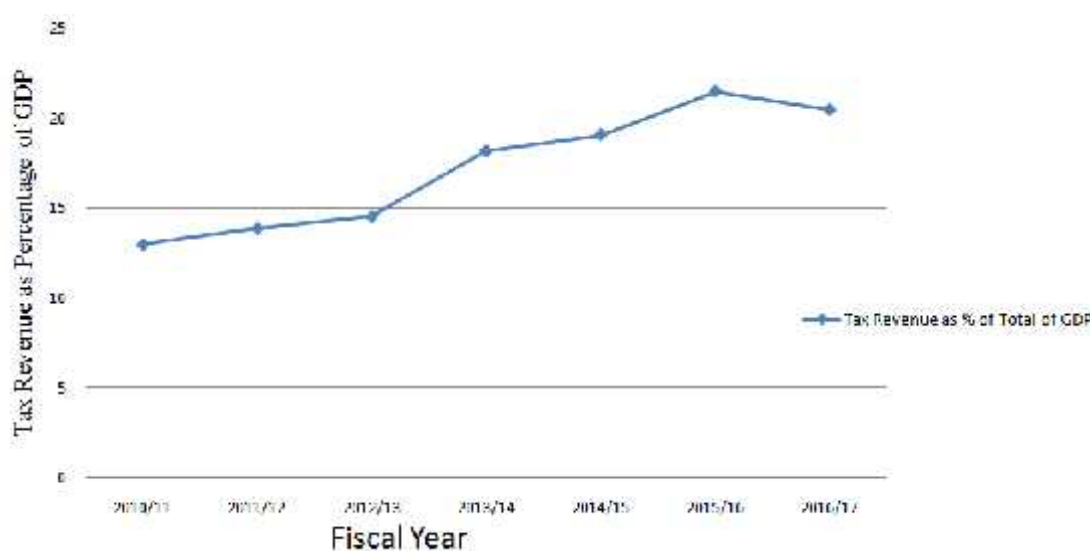
GDP is taken from as current price .The share of tax revenue as GDP is considered as satisfactory. From the F.Y 2012/13 to F.Y 2015/16 it is slowly increasing from 14.51% to 21.44%.

Government income (government's revenue and grants) had increased by 17.98 percent to Rs. 531.41 billion in FY 2015/16 compared to FY

2014/15. Similarly, such income had increased by 13.5 percent in FY 2014/15 as compared to its preceding fiscal year and reached Rs. 450.41 billion. 2.2. The budget that remained in deficit by Rs. 81.14 billion in FY 2014/15 decreased by 14.2 percent in FY 2015/16 and stood in deficit by 69.61 billion. The budget was in deficit of Rs. 38.17 billion in fiscal year 2013/14. The ratio of government expenditure to GDP stood at 26.7 percent in FY 2015/16. Such ratio was 25.0 percent in its preceding fiscal year while this ratio had remained at 22.1 percent in FY 2013/14.

Figure 4.1

Tax Revenue as Percentage of GDP



The above graph shows that the tax revenue as percentage of GDP is in increasing slowly from fiscal year 2010/11 to fiscal year 2015/16.

4.1.2 Composition of Tax and Non Tax Revenue in Nepal

Total revenue of Nepal consists of Tax revenue and non-tax revenue. Tax revenue consists of customs, excise, Sales tax, income tax, Land revenue and registration and miscellaneous taxes. Similarly Non tax revenue comprises of charges, fees, fines, and forfeiture, receipts from sale of

commodities and services, dividend, royalty and sale of fixed assets, principal of interest payments and others.

Table 4.4

Composition of Tax and Non Tax Revenue in Nepal (Rs. in 10 million)

Fiscal Year	Total Government Income	Tax Revenue	Tax Revenue Percent	Non Tax Revenue	Non Tax Revenue Percent	Total Revenue	Total Revenue Percent
2010/11	24571.1	17719.7	72.1	2114.8	8.6	19834.6	12.96
2011/12	28798.4	21172.3	73.5	3265.2	11.33	24437.4	13.86
2012/13	33392.7	25921.5	77.62	3680.64	11.02	29602.1	14.51
2013/14	39688.5	31244.1	78.72	4417.95	11.13	35662.1	18.15
2014/15	45041.3	35595.6	79.02	4991.07	11.08	40586.6	19.05
2015/16	53141.1	42109.7	79.24	6086.5	11.45	48196.2	21.44
2016/17	55004.47	49463.85	89.92	3622.74	6.58	53086.6	20.42

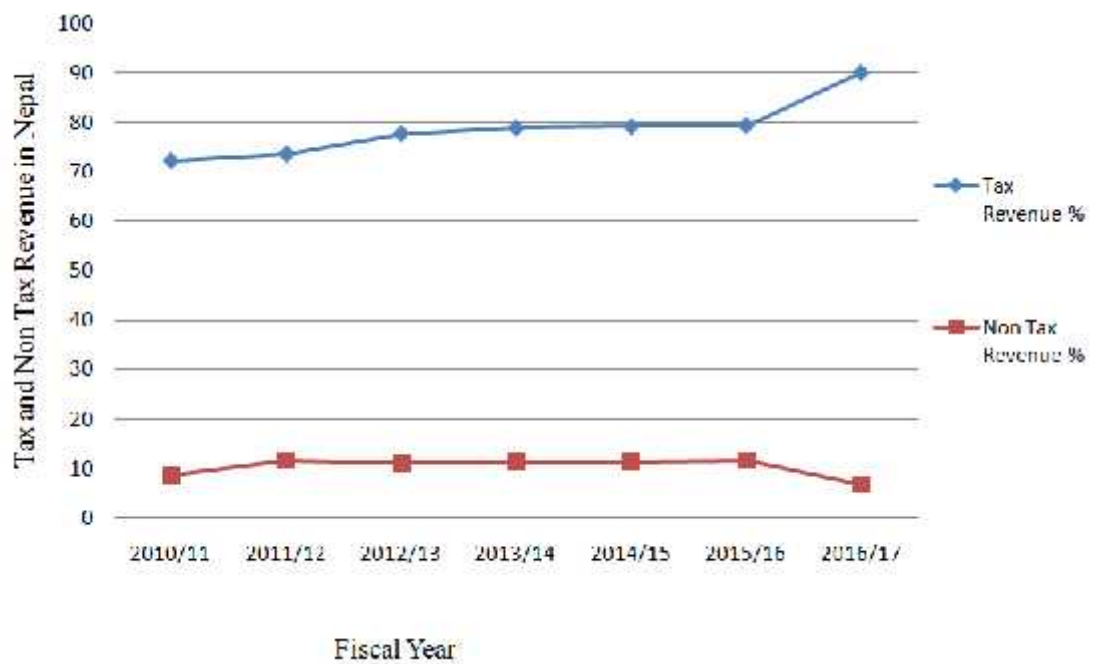
Source: Economic Survey 2016/17.

On non-tax revenue mobilization front, revenue of Rs. 8.28 billion has been mobilized from assets during the first eight months of current fiscal year 2016/17. Its contribution to total revenue mobilization stood at 2.34 percent in the same period. Similarly, revenue amounting Rs. 8.48 billion was mobilized from assets in the same period of previous fiscal year. Likewise, the contribution of revenue through sale of goods and services stood at 2.73 percent in the first eight months of current fiscal year against 3.67 percent contribution to total revenue recorded in the corresponding period of previous fiscal year. 2.46. In the first eight months of FY 2015/16, revenue earned from assets had increased by 15.2 percent to Rs. 26.16 billion as compared to the corresponding period of preceding fiscal year 2014/15. Its contribution to total revenue had

remained at 5.43 percent in FY 2015/16. Likewise, the contribution of income earned through the sale of goods and services to total revenue stood at 2.87 percent in the same fiscal year. Such contribution was recorded at 3.01 percent in FY 2014/15.

Figure 4.2

Composition of Tax and Non Tax Revenue in Nepal



The above line chart shows that the composition percent of tax revenue in Nepal is higher and fluctuating trend but the non-tax revenue of Nepal is lower and linear trend.

4.2 Financial Trend of NTC

Table 4.5

Statement of Financial Position of NTC

Nepal Telecom
Nepal Doorsanchar Company Limited
Bhadrikali Plaza, Kathmandu
Audited Financial Result of Financial Year 2074

Statement of Financial Position					
Particulars	20/0 Ashad	20/1 Ashad	20/2 Ashad	20/3 Ashad	20/4 Ashad
Assets					
Non-Current Assets					
Intangible Assets	3,388,511,550	223,502,222	159,035,373	228,736,901	163,999,899
Property, Plant and Equipment	16,250,282,239	18,656,147,401	34,114,089,192	34,753,521,841	37,143,110,564
Capital Work-in Progress	5,838,734,769	7,020,513,280	4,054,946,196	4,785,453,311	6,131,524,342
Investments	25,759,943,818	15,805,666,621	5,713,391,959	6,637,096,522	8,156,708,029
Deferred Tax Asset	3,735,538,092	4,448,992,769	4,323,929,704	4,344,825,367	4,347,506,855
	56,053,010,468	46,154,822,293	48,365,391,424	50,749,633,942	55,942,849,689
Current Assets					
Inventory	1,385,963,902	508,861,884	562,824,582	400,423,766	459,033,801
Trade Receivable	3,188,946,955	2,923,139,294	53,253,164	1,073,720,871	1,180,592,652
Cash & Cash Equivalents	25,744,785,622	41,263,465,147	3,571,229,513	3,496,464,376	24,255,209,290
Loan, Advance & Other	25,822,422,498	4,724,611,360	2,621,810,462	2,530,810,266	2,673,822,703
	58,142,118,977	49,420,077,685	6,809,117,721	7,501,419,279	28,568,658,445
Total Assets	114,251,204,445	95,574,899,978	111,305,510,407	115,258,672,510	121,606,823,165
Equity and Liabilities					
Share Capital	15,000,000,000	15,000,000,000	15,000,000,000	15,000,000,000	15,000,000,000
Reserve and Surplus	38,535,694,828	42,476,727,479	65,998,443,442	71,027,877,334	76,330,848,229
Total Equity	53,635,694,828	57,476,727,479	80,998,443,442	86,027,877,334	91,330,848,229
Non-Current Liabilities	24,020,203,023	22,270,096,643	14,774,119,565	12,584,093,243	15,160,429,075
Current Liabilities and Provisions					
Current Liabilities and Provision	12,077,703,351	12,995,015,926	2,065,743,030	2,272,746,335	2,109,700,681
Provisions	24,491,528,243	2,833,059,930	13,467,204,370	14,373,955,628	13,005,845,180
	36,569,231,594	15,828,075,856	15,532,947,400	16,646,701,963	15,115,545,861
Total Equity and Liabilities	114,251,204,445	95,574,899,978	111,305,510,407	115,258,672,510	121,606,823,165

Table 4.6
Statement Profit or loss of NTC

Statement of Profit or Loss					
Income					
Income From Service	34,140,807,888	35,589,742,990	39,290,144,081	40,704,147,500	40,346,817,951
Other Income	4,717,453,091	3,929,738,854	3,348,227,722	3,505,102,437	4,242,171,171
Total Income	38,858,260,979	39,519,481,844	42,638,371,803	44,209,249,937	44,588,989,122
Expenditure					
Personnel Costs	4,363,388,185	5,318,208,649	5,982,683,341	5,415,018,013	5,328,759,586
Operation and Maintenance Cost	6,738,316,670	7,209,590,543	7,978,259,467	4,364,390,381	6,533,320,864
Administrative Cost	1,352,307,266	1,575,515,649	1,688,894,966	7,656,184,663	1,593,405,851
Royalty	1,364,337,257	1,455,365,300	1,570,388,633	1,387,414,139	1,289,039,635
Contribution on RTDF	682,168,629	711,182,650	785,194,317	1,628,165,900	3,495,780,251
Interest on Subscriber's Deposit	50,254,936	49,746,381	47,836,020	814,082,950	810,278,845
Depreciation	3,492,247,687	3,789,448,627	3,664,367,737	47,701,467	157,431,918
Licence Fee	4,026,937,000	3,354,009,328	165,501,765	3,790,044,218	4,372,057,500
Frequency Fee	1,657,270,784	340,259,790	839,075,101	837,039,347	424,340,522
Total Expenditure	23,727,228,414	24,246,627,601	22,628,476,134	25,984,695,367	24,013,133,774
Net Profit Before Tax	15,131,032,565	15,242,854,243	20,009,895,669	18,224,554,570	20,575,855,348
Provision for Income Tax	3,831,856,568	3,689,129,974	543,557,291	4,543,396,704	5,203,091,225
Net Profit After Tax	11,299,175,997	11,553,724,269	14,556,338,378	13,681,157,866	15,372,764,123

Above table shows the financial and profit and loss position of Nepal Telecom from 2070 to 2074.

4.3 Earning Trend of NTC

In F.Y. 2016/17, company has been successful in earning revenue of NPR 44.59 billion with a net profit of NPR 15.37 billion. In comparison to the previous F.Y. 2015/16, the earning revenue has increased by 0.82% and net profit has increased by 13.42%.

Table 4.7

Total Revenue, Total Profit & Net Profit Ratio of Nepal Telecom (Rs in billions)

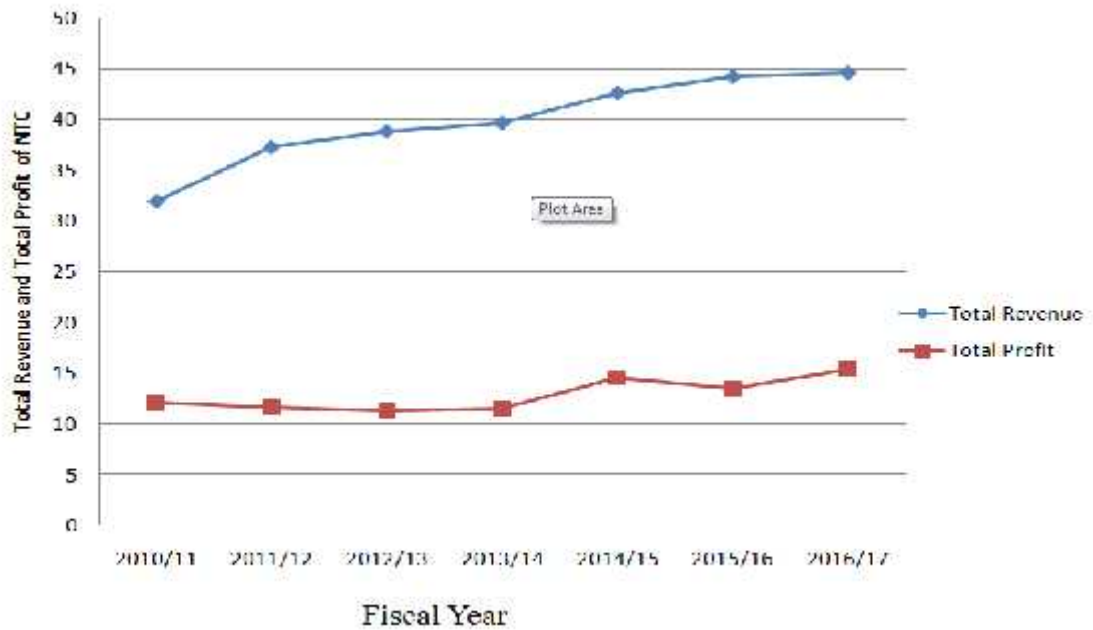
Fiscal Year	Total Revenue	Total Profit	Net Profit Ratio %
2010/11	31.93	12.12	37.95%
2011/12	37.28	11.66	31.27%
2012/13	38.86	11.30	29.08%
2013/14	39.67	11.57	29.16%
2014/15	42.64	14.55	34.14%
2015/16	44.22	13.55	30.65%
2016/17	44.59	15.37	34.47%

Source: Annual report of NTC.

This table shows the total revenue and total profit is increasing trend & net profit ratio in fluctuate trend.

Figure 4.3

Total Revenue & Total Profit of Nepal Telecom



The above graph shows that the total revenue and total profit of Nepal Telecom is increasing slowly from fiscal year 2010/11 to 2016/17.

4.4 Tax Trend of NTC

The company made the following contribution to the government treasury. The list is not exhaustive and includes currently available information, which is not exhaustive.

Table 4.8

Tax trend of NTC

Description	2013/14	2014/15	2015/16	2016/17	2017/18
Advance Income Tax	3,630,931,796	5,075,938,250	4,849,351,955	5,734,587,490	6,148,279,381
Value Added Tax	3,560,090,151	3,865,698,209	4,152,240,932	4,352,155,640	4,752,770,794
Telecom Service Charge	2,086,608,511	2,350,899,583	2,365,256,845	2,908,455,320	3,203,063,055
Ownership Fee	434,301,255	470,613,123	636,056,042	540,257,250	598,211,798
Customs Duty	527,922,968	190,221,048	123,483,123	308,368,217	368,324,887
Royalty and RTDF	1,968,451,393	2,046,505,886	2,133,547,950	2,355,582,950	2,442,248,850
Dividend	6,587,517,600	6,313,037,700	6,450,277,650	6,861,997,500	6,999,237,450
Property and Vehicles Tax	42,332,576	42,449,078	47,466,684	45,165,727	34,804,275
Total	18,838,156,250	20,355,362,877	20,757,681,181	23,106,570,094	24,546,940,490

Source : Annual Report of Nepal Telecom

The above table shows that the total tax contribution of the government treasury is increasing.

4.5 Trend and Contribution of NTC in Government Revenue

4.5.1 Introduction of NTC.

Communication is one of the basic infrastructures of national development, which help make (people sensitive, active, enthusiastic and skillful. At present these are personal meeting, postal services, telecommunications and news papers-mail and internet. Telecommunications service is a vital medium of communication in the world .In Nepal the slogan of “communication for development “ has become a catch word for all those included in the development of various means of communications services. Development telecommunication services have received a place of importance in the development plans of our country.

The development functions were transferred to a board which was known as the NTC. Board in 1969 and its resource base considerably strengthened in terms of its ability to bundle modern telecommunication services in Nepal. Later in 1975 the telecommunication board was converted into public corporation, which was aimed to be 51 % in Nepal Government, 25 percent share to top staff of NTC and 24 % ordinary share to public respectively according communication corporation act 1971. But it was failed to implement from the date of 15 June 1975, Government has run it in cent percent ownership under the communication corporation act 1971 (Acharya, 2056) because of the increasing demand of the telephone line, NTC has prepared a program to distribute a large number of telephone during the tenth five year plan. To

fulfill these objectives, NTC will establish new telephone exchanges .the number of telephone exchanges has increased and the total distribution line hoped to increase the capacity. Today’s cellular mobile services have been started from the commercial as well as personal point of view (Telecom, news paper Bi- monthly).

4.5.2 Market Share of NTC

According to MIS Report of NTA (18 Oct, 2017), the market share of NTC is as follows

Table 4.9
Subscription of Voice Telephony Service

Services Operators	Fixed		Mobile		Others		Total
	PSTN	WLL	GSM	CDMA	LMS	GMPCS	
NDCL	679589	121031	16065510	1520400	-	-	18386530
UTL	-	50135	-	-	476735	-	526870
NCELL	-	-	16305376	-	-	-	16305376
CGC*	**2832	-	-	-	155	-	2987
NSTPL*		2984	-	-	368684	-	371668
STPL	**598	-	1719012	-	-	-	1719610
Others	-	-	-	-	-	1742	1742
Total	683019	174150	34089898	1520400	845574	1742	37314783
	857169		35610298		847316		
Services							Subscription (%)
Fixed							3.24
Mobile							134.41
Others (LMS, GMPCS)							3.20
Total							140.85

Population of Nepal 26,494,504 (Source: cbs.gov.np)

Source: MIS Report of NTA (18 Oct, 2017)

This table describes the voice penetration in Nepal. Total penetration is more than hundred percent.

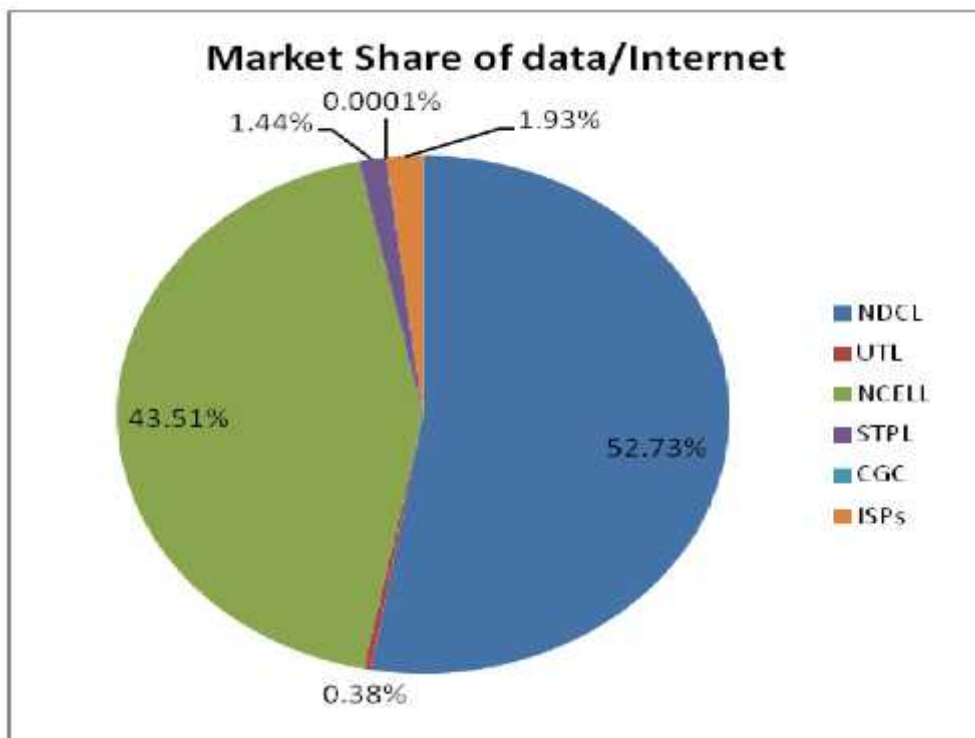
Table 4.10
Data/Internet Services

Services			Subscribers			ISPs	Total
	NDCL	UTL	Ncell	STPL	CGC*		
Dialup (PSTN+ISDN)	-	-	-	-	-	152	152
Wireless	-	-	-	-	-	58739	58739
Cable Modem/ Optical Fibre	-	-	-	-	-	263542	263542
ADSL	191585	-	-	-	-	-	191585
GPRS, EDGE, WCDMA	8447689	-	7255733	240311	-	-	15943733
CDMA 1X, EVDO	136573	63203	-	-	-	-	199776
WiMAX	16985	-	-	-	-	-	16985
VSAT based Internet	-	-	-	-	13	-	13
Total	8792832	63203	7255733	240311	13	322433	16674525
	Internet Penetration (%)						62.94

Source: MIS Report of NTA (18 Oct, 2017)

This table shows the Data/Internet penetration in Nepal which is around 62.94 percent.

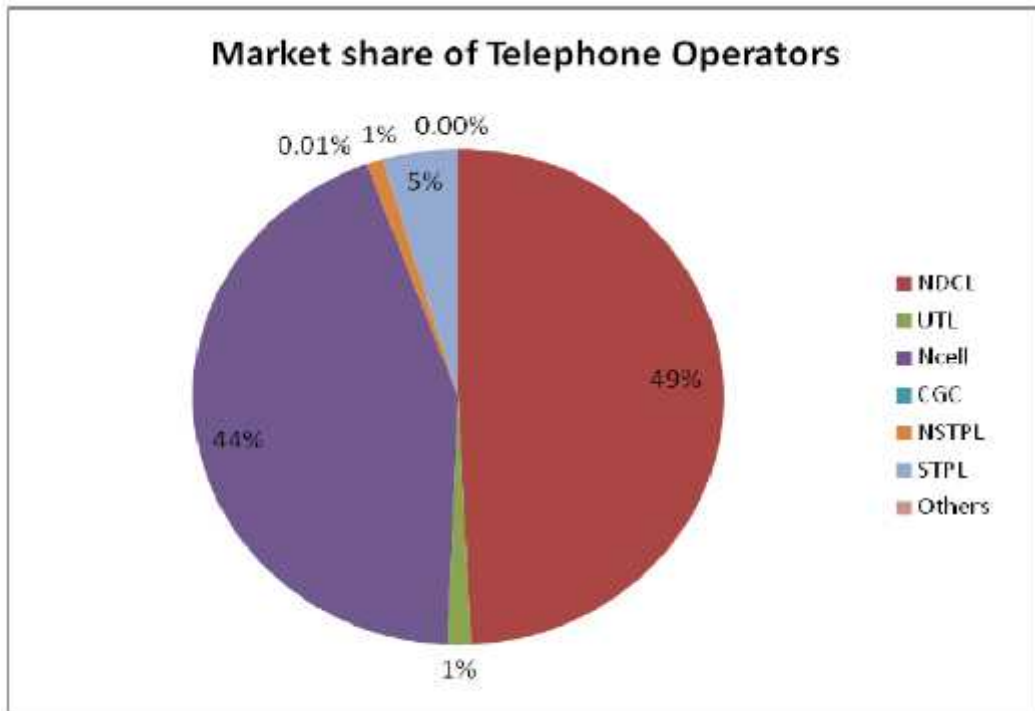
Figure No. 4.4
Market Share of NTC (Data)



Source: MIS Report of NTA (18 Oct, 2017)

This pie chart explains the market share of the different operator. In which market share of NTC is higher than other operator. This is around 52.73%.

Figure 4.5
Market Share of NTC (Telephone)



Source: MIS Report of NTA (18 Oct, 2017)

Nepal Telecom has competitive and dominant market in Nepal. Market share of NTC in voice service is 49 % in Nepal. Similarly, market share in data service is 52.73%.

4.5.3 The Shareholding Pattern of the company.

Table 4.11

The Shareholding Pattern of the company

Shareholder Category	No. of Shares	% of holding
Government of Nepal	137,239,950	91.49%
Citizen Investment Trust	50,000	0.03%
General Public	12710050	8.48%
Total	150,000,000	100%

Source: Nepal Telecom

4.5.4 Contribution of NTC to GDP of Nepal

The contribution of revenue from NTC in GDP is in fluctuating trend. It is known that the percentage contribution of NTC in GDP is less than in comparison to percentage contribution of PEs to GDP. Percentage contribution of NTC to GDP is very small but it is not small in comparison PE's income tax contribution to GDP. This is presented in the table below.

Table 4.12

Contribution of NTC to GDP of Nepal (Rs in 000)

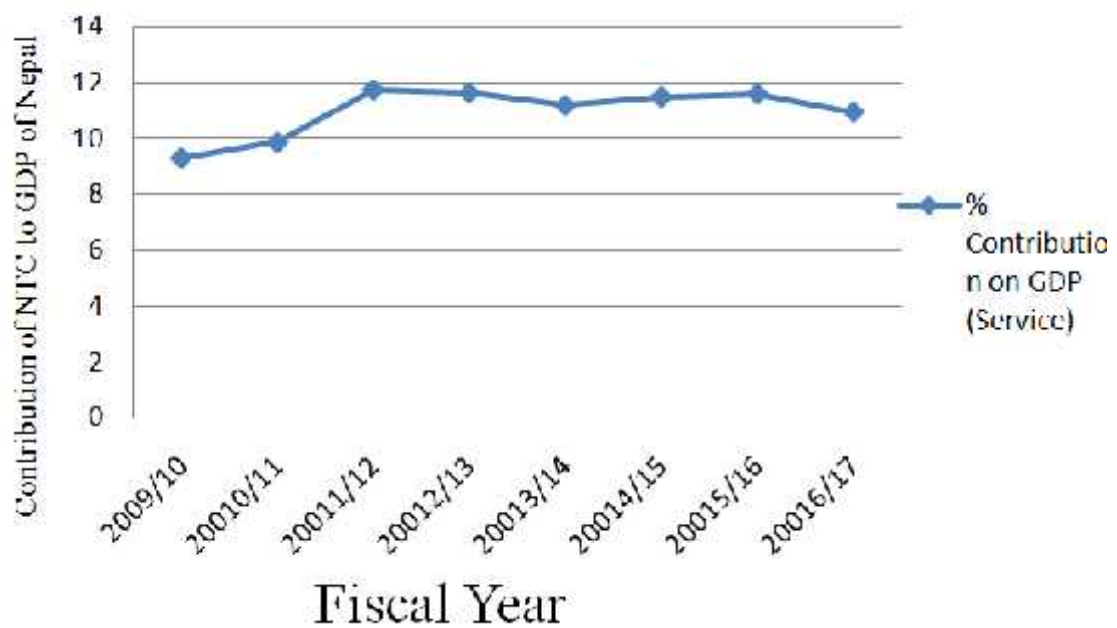
Fiscal Year	Country GDP (Service)	NT Revenue	% Contribution on GDP (Service)
2009/10	293,300,000	27,221,068	9.28
2010/11	303,300,000	29,849,161	9.84
2011/12	318,500,000,	37,283,776	11.71
2012/13	335,100,000	38,858,261	11.60
2013/14	355,600,000	39,671,121	11.16
2014/15	371,982,000	42,638,371	11.46
2015/16	382,400,000	442,50,175	11.57
2016/17	408,200,000	44,591,005	10.93

Source: Annual Report of NTC.

NT Revenue to GDP of Nepal has Decreasing trend. It was 11.60 percent in 2012/13 & 11.16 percent in 2013/14. After the FY 2014/15, NT Revenue to GDP of Nepal has increasing trend. It was 11.46 percent in F/Y 2014/15 & 11.57 in F/Y 2015/16. The company has been a major contributor to Country's GDP in Service Sector as shown by the table above. The company has contributed 10.93 percent to Country's GDP in Service Sector in current financial year. This indicates that the company has been playing a vital role in GDP growth of the country.

Figure 4.6

Contribution of NTC to GDP of Nepal



This graph shows the contribution percentage on NTC to GDP of Nepal is in fluctuating trend. Initially, it is in increasing and then decreasing trend.

4.5.5 Composition of Revenue of NTC to Government Revenue.

Table 4.13

Composition of revenue of NTC to Government revenue (Rs in 000)

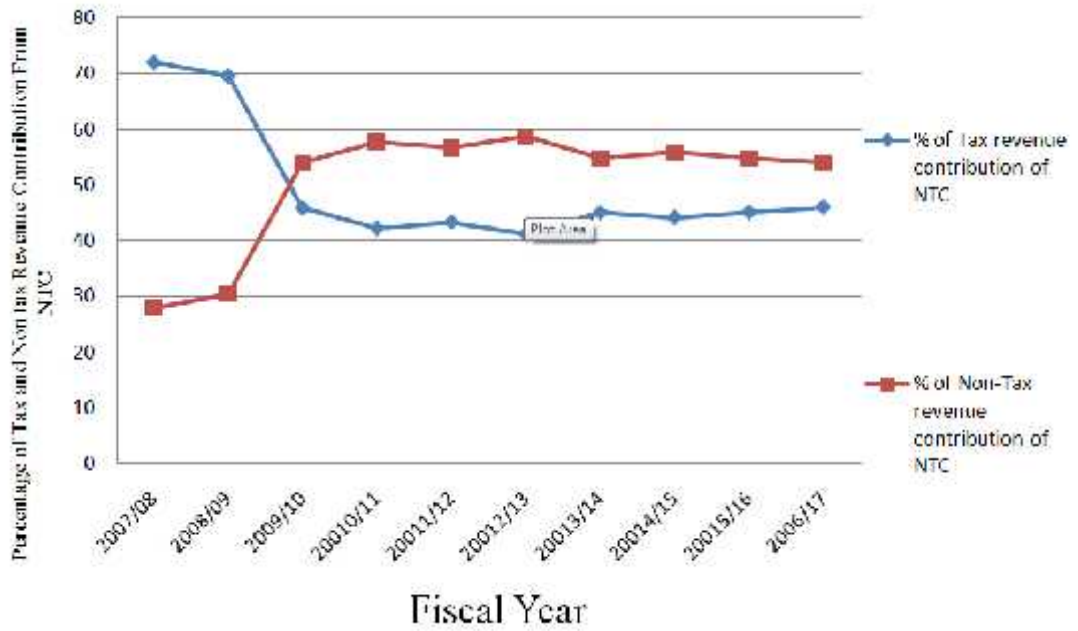
Fiscal Year	Revenue from NTC	Tax Revenue Contribution of NTC	Non Tax Revenue Contribution of NTC	% of Tax revenue contribution of NTC	% of Non-Tax revenue contribution of NTC
2007/08	96,75,131	69,74,229	27,01,839	72.08	27.92
2008/09	12,247,290,	85,31,532	37,15,758	69.66	30.34
2009/10	15,804,498	72,56,095	85,48,403	45.91	54.09
2010/11	16,277,671	68,79,148	93,98,523,	42.26	57.74
2011/12	18,202,146	78,89,887,	10,312,259	43.35	56.65
2012/13	18,838,156	7,761,277	11,076,879	41.20	58.80
2013/14	20,355,363	9,174,307	11,181,056	45.07	54.93
2014/15	20,757,681	9,172,543	11,585,138	44.18	55.82
2015/16	23,114,000	10,441,550	12,673,600	45.17	54.83
2016/17	24,539,000	11,304,500	13,241,500	46.07	53.93

Source: Annual Report of NTC.

The part of non tax revenue as 27.92 in initial year but it was decreased from FY 2013-14 and increased in 2014-15. The part of non tax revenue was lower in initial year. That is in fluctuating manner. Similarly, the part of tax revenue from NTC to government is also in fluctuating trend.

Figure 4.7

Percentage of Tax and Non-tax Revenue contribution from NTC



The part of Tax and Non-tax revenue from NTC to Government is in fluctuating trend which is showed by the line chart

4.5.6 Contribution of NTC to Government Revenue of Nepal.

Table 4.14

Contribution of NTC to Government Revenue of Nepal (Rs in 000)

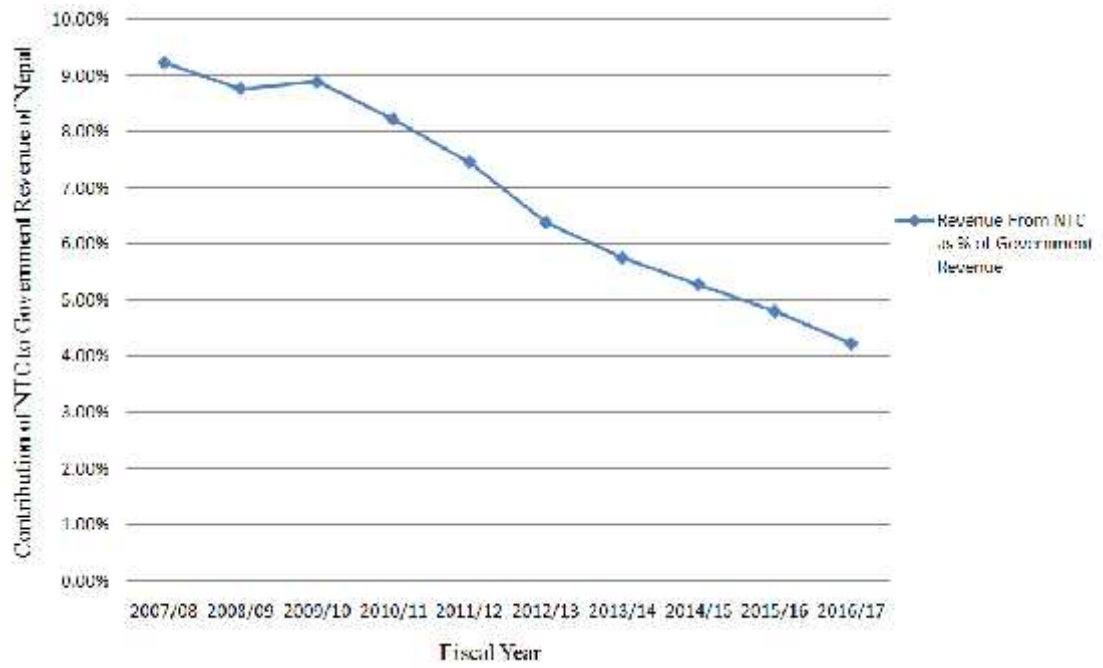
Fiscal Year	Government Revenue	Revenue from NTC	Revenue From NTC as % of Government Revenue
2007/08	104,939,000	96,75,131	9.22 %
2008/09	139,944,000	12,247,290	8.75 %
2009/10	177,991,872	15,804,498	8.88 %
2010/11	198,376,320	16,277,671	8.21 %
2011/12	244,374,099	18,202,146	7.45 %
2012/13	295,729,025	18,838,156	6.37 %
2013/14	354,500,000	20,355,363	5.74 %
2014/15	393,506,664	20,757,681	5.27 %
2015/16	481,953,263	23,114,000	4.79 %
2016/17	580,983,940	24,539,000	4.22 %

Source: Economic survey and Annual Report of NTC.

The contribution of NTC to government revenue is 4.22% in FY 2016/17 which was 9.22% in previous year. It was 5.27% in fiscal year 2014/15. The amount of revenue of NTC in government revenue is in decreasing trend.

Figure 4.8

Revenue from NTC as % of Government Revenue



The above graph shows that the percent of revenue of NTC in government revenue is in decreasing trend.

4.5.7 Contribution of Tax Revenue from NTC to total Tax Revenue of Government of Nepal

Table 4.15

Contribution of Tax Revenue from NTC to Tax Revenue of Government of Nepal (Rs in 000)

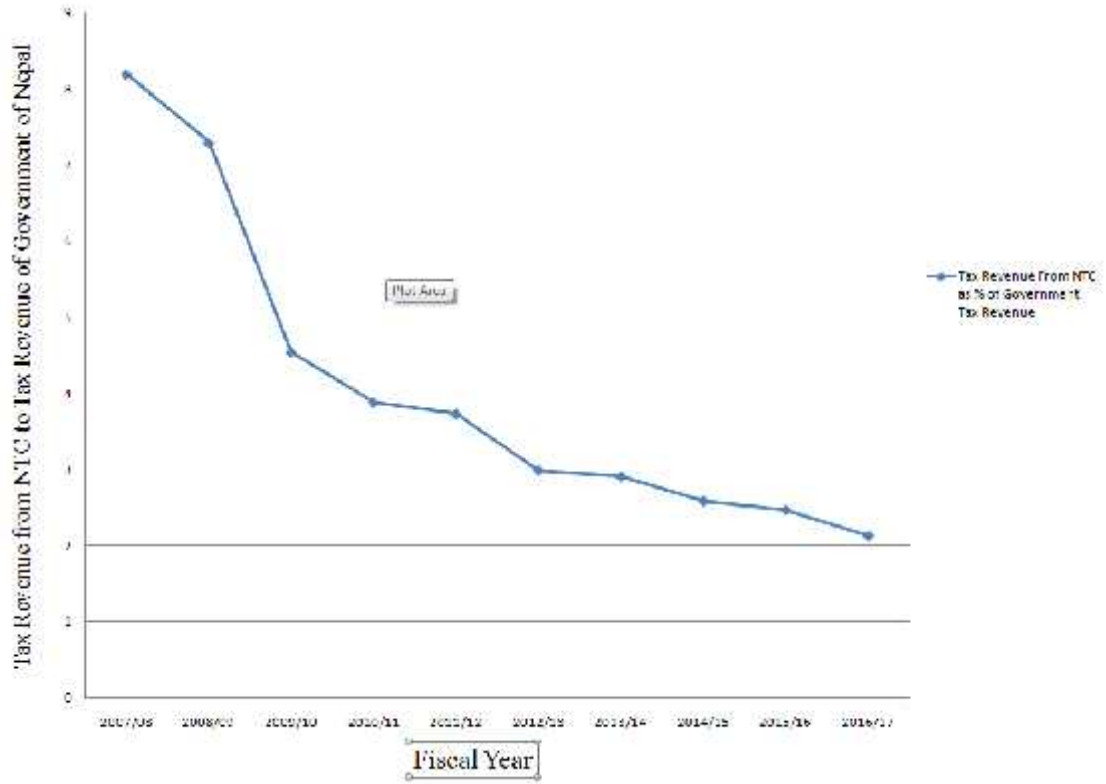
Fiscal Year	Government Revenue	Government Tax Revenue	Revenue from NTC	Tax Revenue Contribution of NTC	Tax Revenue From NTC as % of Government Tax Revenue
2007/08	104,939,000	85,155,000	96,75,131	6,974,229	8.19
2008/09	139,944,000	117,052,000	12,247,290	8,531,532	7.29
2009/10	177,991,872	159,785,382	15,804,498	7,256,095	4.54
2010/11	198,376,320	177,227,164	16,277,671	6,879,148	3.88
2011/12	244,374,099	211,722,611	18,202,146	7,889,887	3.73
2012/13	295,729,025	259,572,967	18,838,156	7,761,277	2.99
2013/14	354,500,000	314,639,998	20,355,363	9,174,307	2.91
2014/15	393,506,664	353,505,772	20,757,681	9,172,543	2.59
2015/16	481,953,263	421,092,753	23,114,000	10,441,550	2.47
2016/17	580,983,940	528,571,690	24,539,000	11,304,500	2.13

Source: Economic survey and Annual Report of NTC.

The above data shows that the contribution of NTC tax revenue to government tax revenue is in decreasing trend. The current year of contribution is 2.13% when previous year was 2.47. It was 8.19 in the initial year.

Figure 4.9

Contribution of Tax Revenue from NTC to Tax Revenue of Government of Nepal



The above line chart shows the NTC tax revenue to government tax revenue is in decreasing trends.

4.5.8 Contribution of Non Tax Revenue from NTC to total Non-Tax Revenue of Government of Nepal

Table 4.16

Contribution of Non Tax Revenue from NTC to Non Tax Revenue of Government of Nepal (Rs in 000)

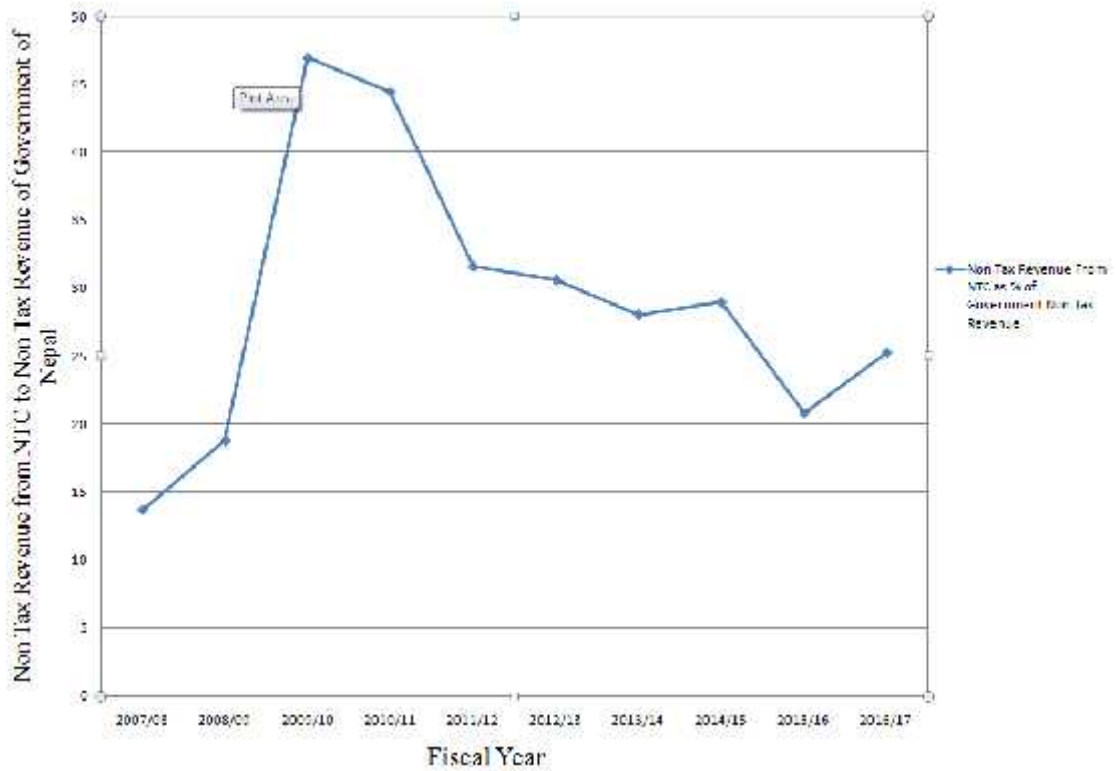
Fiscal Year	Government Revenue	Government Non Tax Revenue	Revenue from NTC	Non Tax Revenue Contribution of NTC	Non Tax Revenue From NTC as % of Government Non Tax Revenue.
2007/08	104,939,000	19,784,000	9,675,131	2,701,839	13.66
2008/09	139,944,000	22,892,000	12,247,290	3,715,758	18.78
2009/10	177,991,872	18,206,490	15,804,498	8,548,403	46.95
2010/11	198,376,320	21,149,156	16,277,671	9,398,523	44.44
2011/12	244,374,099	32,651,488	18,202,146	10,312,259	31.58
2012/13	295,729,025	36,156,058	18,838,156	11,076,879	30.64
2013/14	354,500,000	39,860,002	20,355,363	11,181,056	28.05
2014/15	393,506,664	40,000,892	20,757,681	11,585,138	28.96
2015/16	481,953,263	60,860,400	23,114,000	12,673,600	20.82
2016/17	580,983,940	52,412,250	24,539,000	13,241,500	25.26

Source: Economic survey and Annual Report of NTC.

The contribution of NTC to non tax revenue of government is vital amount. The amount is 25.26 % in current year. This is in decreasing trend from FY 2012/13 to 2013/14 and FY 2014/15 and FY 2015/16. But it was increasing trend in initial year.

Figure 4.10

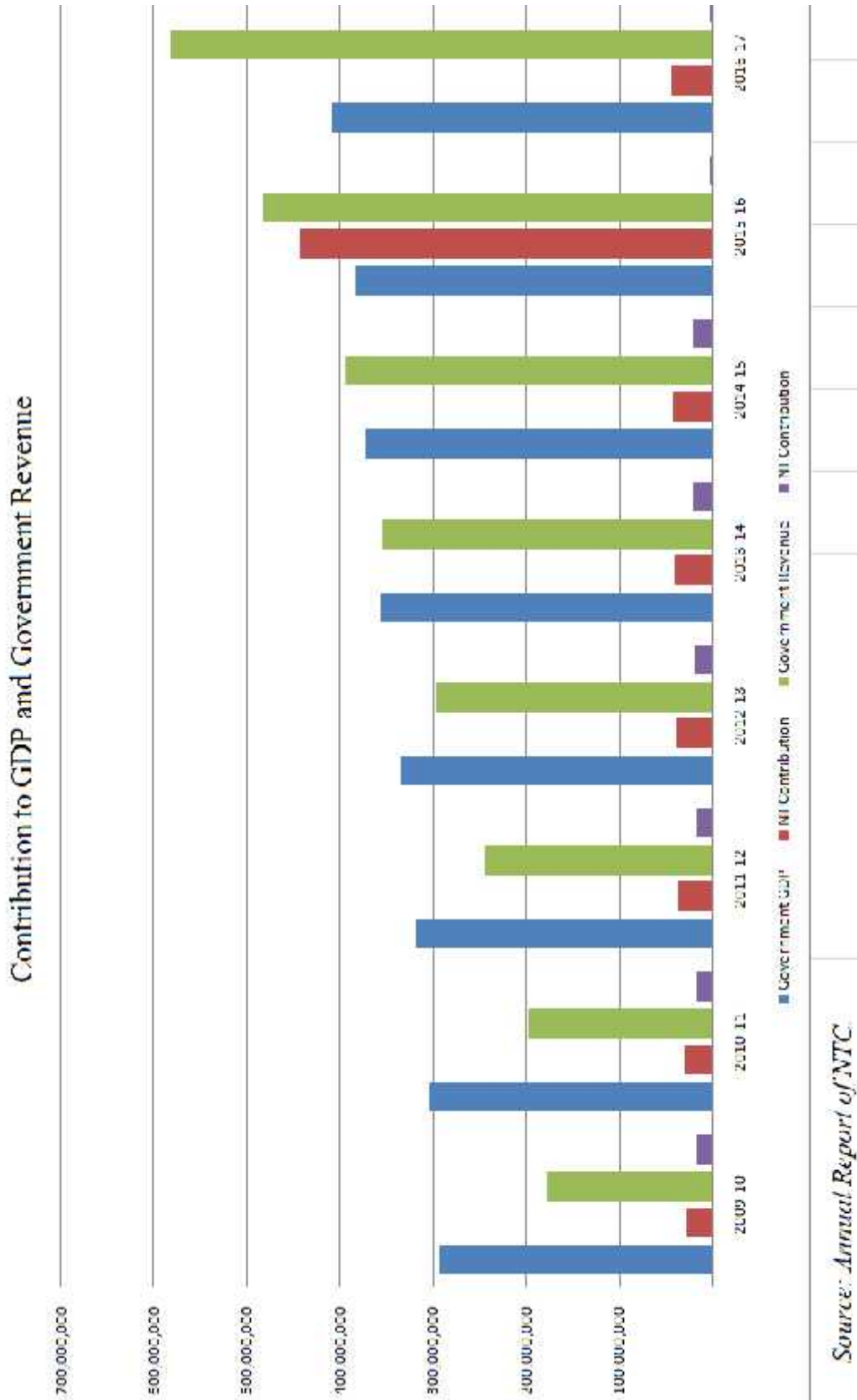
Contribution of Non Tax Revenue from NTC to total Non Tax Revenue of Nepal



The above graph shows that the contribution of NTC to non-tax revenue of government is vital amount. This is in decreasing trend from FY 2012/13 to 2013/14 and FY 2014/15 and FY 2015/16. But it was increasing trend in FY 2016/17.

Figure 4.11

Contribution to GDP and Government Revenue



Nepal Telecom was honored the highest Value Added Tax payer in Nepal for the previous fiscal year 2015/16 & second highest Value Added Tax Payer in current year. In the VAT Collection category for the FY 2015/16 for collecting the VAT amounting to RS 5.73 billion. Nepal Telecom has contribute to the government treasury in the FY 2016/17 by paying Rs 6.14 billion as Advance Income Tax, Rs 4.75 billion as VAT, Rs 3.20 billion as Telecom Service Charge, Rs 0.59 billion as Ownership, Rs 0.36 billion as Costume Duty, Rs 2.44 billion as Royalty & RTDF, Rs 6.99 billion as Dividend, and Rs 3.48 million as Property & Vehicle Tax.

4.4 Major Findings

The major findings of the study are pointed out as follows.

1. Nepalese revenue structure consists of tax and non-tax revenues. Nepalese revenue structure consists of tax and non-tax revenues. Contribution of tax revenue to the total revenue stood at 87.57 percent in FY 2012/13 while its contribution increases gradually to 93.18 percent in FY 2016/17.
2. Non-tax revenue in fiscal year 2015/16 reached Rs. 60.86 billion. This is 12.62 percent of total revenue.
3. GDP is taken from as current price .The share of tax revenue as GDP is considered as satisfactory. From the F.Y 2012/13 to F.Y 2016/17 it is slowly increasing from 14.51% to 20.42%.
4. Nepal Telecom has competitive and dominant market in Nepal. Market share of NTC in voice service is 49 % in Nepal. Similarly, market share in data service is 52.73%.
5. In F.Y. 2016/17, company has been successful in earning revenue of NPR 44.59 billion with a net profit of NPR 15.37 billion. In comparison to the previous F.Y. 2015/16, the earning revenue has increased by 0.82% and net profit has increased by 13.42%.

6. NT Revenue to GDP of Nepal has increasing trend. It was 11.60 percent in 2012/13 and 11.16 percent in FY 2013/14. The company has been a major contributor to Country's GDP in Service Sector as shown by the table above. The company has contributed 10.93 percent to Country's GDP in Service Sector in current financial year. This indicates that the company has been playing a vital role in GDP growth of the country.
7. The contribution of NTC to government revenue is 4.22% in fiscal year 2016/17 which was 4.79% in previous year. The amount of revenue of NTC in government revenue is in decreasing trend.
8. Contribution of NTC tax revenue to government tax revenue is in decreasing trends. The current year (2016/17) contribution is 2.13% when previous year was 2.47%.
9. The contribution of NTC to non tax revenue of government is vital amount. The amount is 25.26% is in current year 2016/17 lesser than F/Y 2014/15. This is in decreasing trend.
10. Government-owned Nepal Telecom has been awarded as the highest VAT payer in the last FY 2014/15.

CHAPTER V

SUMMARY AND CONSLUSIONS

5.1 Summary

Nepal's overall economic activity has been encouraging in fiscal year 2016/17. Economic activities have expanded due to favorable monsoon, increase in capital expenditure, energy management, and improvement in investment environment including overall supply situation. As a result, gross domestic product (GDP) at basic price is estimated to grow by 6.94 percent in the current fiscal year. This growth rate is the highest since FY 1993/94. Such growth rate was 0.01 percent in the previous fiscal year. The economy that contracted due to the earthquake and disruption in border points is in the stage of recovery and expansion.

Agriculture and non-agriculture sectors are estimated to grow by 5.29 percent and 7.74 percent respectively in FY 2016/17. Such growth rates were 0.03 percent and 0.16 percent in the previous fiscal year. Likewise, service sector and industrial sector are estimated to grow by 6.9 percent and 10.97 percent respectively in the current fiscal year. Nepalese economy is in the stage of structural transformation as the share of service sector is increasing while that of agriculture sector is decreasing. The share of agriculture and non-agriculture sectors to GDP is estimated to remain at 29.37 percent and 70.63 percent respectively in fiscal year 2016/17.

High and sustainable economic growth is a must criterion for Nepal to graduate from a least developed country to developing country by 2022.

It is difficult for the country to graduate to the status of developing country unless it achieves a consistent annual economic growth rate of 7-8 percent. Amidst country's average economic growth rate of just 4.1 percent in last five years, achieving the target with the attainment of higher economic growth by boosting investment remains a challenge. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To lunch these activities government needs various resources. They are Money, man, machine and materials. Nepalese economic is facing serious problem of resource gap revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country but the revenue surplus is not adequate to undertake developmental activities sufficiently in the country. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long non interest of the country.

Nepal government can use internal and external resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit of Nepal has been increasing. To solve the problem of fiscal deficit, tax should play an important role but in Nepal, tax has not been seen mobilized properly.

The present study entitled tax collection from public enterprises with special reference to Nepal Telecom is related to the public enterprises as part of the taxation. In this study analysis of effectiveness of tax revenue and contribution of public enterprise as well as Nepal telecom income to tax revenue of Nepal has been shown, This study covers the role of tax in Nepal, role of tax from public enterprises and Nepal Telecom income in

government revenue of Nepal, comparative study in the role of tax from public enterprise and Nepal Telecom income to total tax revenue and income tax revenue of Nepal.

In second chapter, the review of literature had made through the study of various books articles dissertation and other reference materials, various concepts of taxation have been discussed in this study. It includes sources of government revenue, meaning of tax, classification of taxes, objectives of taxation, historical background of income tax, heads of income and concept of taxation.

In chapter three, the researcher had discussed about various aspects of research methodology as research design used for this study, data collection procedure, sources of data, selection of the respondents, procedures of processing and analysis of data.

Chapter four deals with the primary as well as secondary data and analyzed them to get the meaningful result. Economic Surveys and Annual Report of NTC were the major sources of secondary data.

The main objective of the present research was to study the structure of tax and its contribution from NTC to government revenue of Nepal.

5.2 Conclusion.

- 1 Nepalese revenue structure consists of tax and non-tax revenues. Nepalese revenue structure consists of tax and non-tax revenues. Contribution of tax revenue to the total revenue stood at 87.57 percent in FY 2012/13 while its contribution increases gradually to 93.18 percent in FY 2016/17.
- 2 Non-tax revenue in fiscal year 2015/16 reached Rs. 60.86 billion. This is 12.62 percent of total revenue.
- 3 Tax revenue has consisted direct and indirect tax revenues. Tax revenue has been dominated by indirect tax revenue. Among direct taxes, income tax has highest contribution. Nepalese income tax structure is formed by contribution of income tax from PES, semi public enterprise. Private corporate bodies, individuals, taxation and plowmen, tax on intersect and other taxes contribution of individuals has occupied first position in total income tax revenue.
- 4 Contribution of tax has been increasing trends in total revenue, tax revenue and direct tax revenue in Nepal respectively. The study showed the contribution of tax revenue it had occupied major portion of tax revenue in comparison of non tax revenue in the total tax revenue of Nepal. It showed that tax has been a major source of revenue mobilization
- 5 It shows that the tax/GDP ratio of Nepal is no good. The study should the lower contribution of tax revenue to GDP. GDP is taken from as current price .The share of tax revenue as GDP is considered as satisfactory. From the F.Y 2012/13 to F.Y 2016/17 it is slowly increasing from 14.51% to20.42%.
- 6 In F.Y. 2016/17, company has been successful in earning revenue of NPR 44.59 billion with a net profit of NPR 15.37 billion. In

comparison to the previous F.Y. 2015/16, the earning revenue has increased by 0.82% and net profit has increased by 13.42%.

- 7 NT Revenue to GDP of Nepal has increasing trend. It was 11.60 percent in 2012/13 and 11.16 percent in FY 2013/14. The company has been a major contributor to Country's GDP in Service Sector as shown by the table above. The company has contributed 10.93 percent to Country's GDP in Service Sector in current financial year. This indicates that the company has been playing a vital role in GDP growth of the country.
- 8 The contribution of NTC to non tax revenue of government is vital amount. The amount is 25.26% is in current year 2016/17 lesser than F/Y 2014/15. This is in decreasing trend.
- 9 Government-owned Nepal Telecom has been awarded as the highest VAT payer in the last FY 2014/15.
- 10 It has been observed that contribution from NTC income tax to government revenue had increased. It shows that income tax for NTC significantly affects the total revenue.
- 11 Income tax from NTC to total tax revenue showed the increasing trend. Income tax from NTC significantly affects the total tax revenue.
- 12 Income tax is an important source of collecting government revenue contribution of indirect tax to total revenue is effective than direct tax.
- 13 The success or effectiveness of tax system entirely depends upon the implemental of provisions which is the major responsibility of tax administration.
- 14 There is poor taxpaying habit among Nepalese people. Basically due to lack of incentives for regulator tax payers, defective tax

administration system.

15 There is no satisfactory contribution of income tax from PES to government revenue. Poor performance of public enterprises, overstaffing and political pressure and high corruption in public enterprises are the most important causes of unsatisfactory contribution of income tax from PES to government revenue.

16 Contribution of telecom tax to tax revenue has been found satisfactory.

5.3 Recommendations

On the basis of the present study, the following recommendations are suggested.

- i. The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficial to the people.
- ii. Nation should Effort to Structural and Managerial Changes for increasing autonomy and accountability
- iii. A national wide campaign should be launched to explain laws, tax program and benefits of tax with a view of stimulating dynamic participation of the public in order to pay taxes through media of radio, television, newspapers and speech programmers in the educational institutions and society.
- iv. The government should increase the amount of investment in NTC to render services to the customer and generate more revenue from NTC. To increase investment NTC should modernize its existing service rendering system in town areas and extend its coverage if

service in deprived cores of the country, which is supported to increase the ratio of direct tax revenue and total tax revenue.

v. The government should take strict action against such PES which is suffering from losses for many years rather than providing subsidies.

vi. The following recommendation is made for improvement of income tax administration.

) Delay in assessment should be reduced as possible.

) Unnecessary outside pressure should be avoided.

) Proper direction and communication should be made more effective.

) Computerized information system is necessary to keep up to date records of income tax.

) Proper tax educational should be provided to tax officials as well as tax payer's regularity.

vii. The following recommendation are made to make factory contribution of income tax from PEs

) There should be proper responsibility and accountability.

) Overstaffing should be reduced to prophesize and corrupting should be minimized in PES.

) The management of PES should be responsible to failure of public enterprises. They should be punished when they cannot meet their targets and they should be awarded when they actives success.

) Weakness of government economic policy should be avoided.

viii. The following recommendations are made to solve the problems faced by Nepal Telecom regarding income tax system.

) Income tax administration should be efficient.

) Income tax act rules and regulations should be made clear and simple.

) Income tax assessment process should be made easy and fast.

In Nepal, Income tax system is facing a lot of problems. If above mentioned suggestions and recommendations are managed in time and implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue.

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