

**CORPORATE INCOME TAX SYSTEM AND
ITS CONTRIBUTION IN NATIONAL
REVENUE OF NEPAL**

By

**MIN KUMAR WASTI
Shanker Dev Campus**

T.U. Regd. No.: 32893-93

Campus Roll No. : 1499/061

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Kathmandu, Nepal

August 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

MIN KUMAR WASTI

Entitled:

**CORPORATE INCOME TAX SYSTEM AND
ITS CONTRIBUTION IN NATIONAL
REVENUE OF NEPAL**

*has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.*

.....
Prof. Dr. Kamal Deep Dhakal

(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha

(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

MIN KUMAR WASTI

Entitled:

**CORPORATE INCOME TAX SYSTEM AND
ITS CONTRIBUTION IN NATIONAL
REVENUE OF NEPAL**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Corporate Income Tax System and Its Contribution in National Revenue of Nepal**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** of Shanker Dev Campus, T.U.

.....

Min Kumar Wasti

T.U. Regd. No.: 32893-93

Campus Roll No. : 1499/061

ACKNOWLEDGEMENT

I would like to acknowledge my sincere thanks to the respected supervisor as well as Campus Chief of Shanker Dev Campus Prof. Dr. Kamal Deep Dhakal who guided me kindly to complete this volume of thesis successfully. Their comments and criticisms have been very good feedback to enable me in improving the qualitative aspect of this thesis.

I'm grateful to the Director General, Directors and Tax Officers for their heartily cooperation in providing necessary latest data, reports, brochures, filling up questionnaire and commenting and suggesting on my research work. Likewise, I am grateful to the members and staffs of Federation of Nepalese Chamber of Commerce and Industries for their valued suggestions, comments and filling up questionnaire.

I am indebted to my parents for their inspiration, patience and financial support for this study.

Finally, I am hopeful that this thesis will be helpful to the students of business studies and to those who want to make further study under this topic and to those who are interested in the field of income tax system in Nepal.

Min Kumar Wasti

TABLE OF CONTENTS

Recommendation

Viva Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

Page No.

CHAPTER – I INTRODUCTION

1.1 Background	1
1.2 Concept of Corporate Tax	7
1.3 Statement of the Problem	9
1.4 Objectives of the Study	11
1.5 Scope of the Study	12
1.6. Importance of the Study	12
1.7 Limitation of the Study	13
1.8. Organization of the Study	13

CHAPTER – II CONCEPTUAL FRAMEWORK AND

REVIEW OF LITERATURE

2.1 Introduction	15
2.1.1 Income Tax in the Nepalese Context	15
2.1.2 History of Income Tax in the World	17
2.2 Evolution of Taxation in Nepal	18
2.2.1 Taxation in Ancient Nepal	18
2.2.2 Taxation in Unified Nepal (1768-1846)	19
2.2.3 Taxation in Rana Regime (1846-1950)	20
2.2.4 Income Tax in modern Nepal (Since 1950)	21
2.3 Income Tax Law	22
2.4 Income Tax Policy	27
2.5 Sources of Income Tax	28
2.6 Types of Income Tax	29
2.7 Corporate Income Tax and its Development in Nepal	30
2.7.1 Corporate Income Tax System	33
2.7.2 Development of Corporate Income Tax in Nepal	34
2.7.3 Corporate Tax Base in Nepal	35
2.8 Tax Policies, Rules and Regulations	37
2.8.1 Taxable Entities	37
2.8.2 Tax Year and Filing Requirement	38
2.8.3 Taxes Imposed	39
2.8.4 Tax Rate	39
2.8.5 Profit Subject to Tax	39

2.8.6 Deduction	41
2.8.7 Foreign Source Income /International Taxation	45
2.8.8 Controlled Foreign Companies (CFCs)	46
2.8.9 Investment Incentives and Special Benefits	47
2.8.10 Related Party Transactions	48
2.8.11 Losses	49
2.8.12 Corporate Groups	50
2.8.13 Tax Free Merge and Disposal	50
2.9 Tax Administration	51
2.9.1 Permanent Account Number	51
2.9.2 Advance Ruling	51
2.9.3 Returns of Income and Assessments	52
2.9.4 Refund of Tax	53
2.9.5 Administrative Structure	54
2.9.6 Collection and Remission of Tax	54
2.9.7 Administrative Revision and Appeal to Revenue Tribunal	55
2.10 Controlling Mechanism of Tax/penal Provisions	55
2.11 Corporate Tax Structure	56
2.11.1 Corporate Tax Rate Structure in Nepal	56
2.11.2 Corporate Tax Base in Nepal	58
2.12 Review of Related Materials	63

2.12.1 Review of Books	63
2.12.2 Review of Newspaper, Journal	67
2.12.3 Review of Thesis/ Dissertation	68
2.13 Research Gap	71

CHAPTER – III RESEARCH METHODOLOGY

3.1 Research Design	72
3.2 Population and Sampling	72
3.3 Sources of Data	73
3.4 Data and information Collection Procedure	73
3.5 Presentation and Analytical Tools	74

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Introduction	76
4.2 Nepalese Corporate Income Tax System	77
4.3 Contribution of Corporate Income Tax	77
4.3.1 Contribution of Corporate Income Tax in National Revenue	77
4.3.3.1 Contribution of Corporate Income Tax in Total Tax Revenue	80
4.3.3.2 Contribution of Corporate Income Tax Revenue in Direct Tax Revenue	82
4.3.3.3 Contribution of CITR in Income Tax Revenue	84

4.3.3.4 Structural Composition of Corporate Income Tax	86
4.4 Empirical Investigation	89
4.4.1 Corporate Income Tax as a Suitable Means of Raising Government Revenue	90
4.4.2 Attitude towards Tax Education	91
4.4.3 Specific objective of Corporate Income Tax in Nepal	91
4.4.4 Attitude towards Corporate Income Tax System in Nepal	93
4.4.5 Appropriateness of Exemption and Deduction	95
4.4.6 Suitable Tax Rate in Nepal	95
4.4.7 Attitude toward Provision of Fees, Fines and Penalties	96
4.4.8 Effectiveness of Income Tax Administration	97
4.4.9 Most Important Factors for Effectiveness of Corporate Income Tax	98
4.4.10 Suggestions for Achieving Effectiveness of Corporate Income Tax in Nepal	99
4.5 Major Findings	99

CHAPTER – V SUMMERY, CONCLUSION AND RECOMMENDATION

5.1 Summary

102

5.2 Conclusion

104

5.3 Recommendations

105

Bibliography

Appendix

LIST OF TABLES

Table No.	Title	Page No.
4.1	Contribution of CITR in National Revenue	78
4.2	Contribution of CITR in Total Tax Revenue	80
4.3	Corporate Income Tax and Direct Tax Revenue	82
4.4	Corporate Income Tax Revenue in Income Tax Revenue	85
4.5	Composition of Corporate Income Tax	87
4.6	Denominations of Respondents Code Used	90
4.7	Corporate Income Tax as a Suitable Means of Raising Government Revenue	90
4.8	People's Knowledge towards Tax System	91
4.9	Opinion towards Objectives of Income Tax	92
4.10	Satisfaction towards Existing Income Tax System	93
4.11	Major problem of Corporate Income Tax System	94
4.12	Appropriateness of Exemption and Deduction	95
4.13	Suitable Tax Rate in Nepal	96
4.13	Attitude towards Reasonability of Existing Provisions of Fees, Fines and Penalties	96
4.14	Reasonable Fine and Penalty Rate	97
4.15	Effectiveness of Income Tax Administration in Nepal	97

4.16 Most Important Factors for Effectiveness of
Corporate Income Tax

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	CITR and National Revenue	79
4.2	Corporate Income Tax and Tax Revenue	81
4.3	CITR and Direct Tax Revenue	84
4.4	CITR and Income Tax Revenue	86
4.5	Structural Composition of Corporate Income Tax	88
4.6	Trend Line Showing Components of CITR	89

ABBREVIATIONS

CFSs	:	Controlled Foreign Companies
CH	:	Chapter
CIT	:	Corporate Income Tax
DG	:	Direct of General
Depn	:	Depreciation
DTR	:	Direct Tax Revenue
FIFO	:	First in First Out
INGOs	:	International Non- Government Organizations
IRD	:	Inland Revenue Department
IRD/N	:	Inland Revenue Department of Nepal
ITA	:	Income Tax Act
ITR	:	Income Tax Revenue
LIFO	:	Last in First out
LPG	:	Liberalization, Privatization, Globalization
M	:	Millions
NGOs	:	Non-Government Organization
NR	:	National Revenue
NRB	:	Nepal Rastra Bank
PAN	:	Permanent Accounting Number
Pri	:	Private
Pub	:	Public
Rs	:	Rupees
SLM	:	Straight Line Method
TC	:	Total Revenue
TX	:	Total Tax
UK	:	United Kingdom
USA	:	United States of America
VAT	:	Value Added Tax