CHAPTER - I

INTRODUCTION

1.1 Background

Economic development which is a continuous process is the prime concern of every nation of the world and Nepal is no exception. Government participation in the economic development is increasingly felt. The main objective of the modern government of any developing country is to improve living standard of its people through the development process. 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 developmental activities. In each country a lot of fund is spent by the public authority for the protection of common people and for the creation of various socio-economic infrastructures.

For this government needs various types of resources i.e. man, machine, materials, etc. one of the most essential thing is huge financial resources. The Government can mobilize both external and internal financial resources. External source of funds are foreign grants and loan. Such sources are uncertain, inconvenient, and not good for healthy development if there is heavy dependent on them. It is better to mobilize internal sources rather than looking with beggars eye to donors. The experiences of developing countries show that there are negative results of increasing international aid and loan to finance the public development activity. As a result their economic condition has gone down day by day. “The government imposes taxes on the people to repay the external debts, as a consequence of which the capacity of people to work and to save declines" (Agrawal and Vaish, 1992).

Developing countries try to mobilize their internal source to finance necessary funds for regular and developmental activities. Nepal is not exception. But Nepal's experience shows that she has mobilized internal sources fewer than expected. Internal source of public finance is own source within the nation. Internal source of public funds is important not only for financing necessary funds but also for proper mobilization of external source. Internal source of funds includes both tax and non tax revenue.

The source of government revenue can be classified broadly into two groups: tax revenue and non tax revenue. The government receives the tax revenue as a compulsory payment where as non-tax revenue is a conditional source.

The use of taxes is safer for financing public revenue in developing countries like Nepal. Deficit financing brings dangerous situation of inflation and external debt are not always reliable. "Taxation, in the modern world has been taken as the best effective tool for raising the ratio of saving to the national income" (Pant,1970).

Tax is an internal revenue sources for the government. The amounts, which are compulsory contributed by taxpayers to the government include in tax.

A tax is compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred (Seligman, 1998).

A tax is a compulsory contribution imposed by a public authority irrespective of exact amount, service rendered to tax payers in return, and not imposed as a penalty for any legal offense (Dalton, 1999).

Thus, tax is a compulsory contribution imposed by public authority using the right given by law. A tax payer does not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offense.

Generally there are two types of tax, Direct tax and indirect tax. Direct tax is really paid by a person to whom it is legally imposed while an indirect tax is imposed on one person but partly or wholly paid by another. Income tax, property tax, gift tax, interest tax, expenditure tax etc, are direct tax where interest where as entertainment tax , sales tax, hotels, excise duty, custom duty etc are indirect tax.

The separation of tax into direct and indirect may be difficult. Philip F. Taylor has identified the suitability as difference of direct and indirect tax. According to him, direct tax can not be shifted while indirect tax can be shifted (Taylor; 1968).

A tax imposed on income base is called income tax. The basic objectives of income tax are two fold – revenue collection and redistribution. In some detail these objectives can be divided into four parts- primary objective of raising revenue; the economic objective of providing fiscal policy tool to stimulate private investment, reduce unemployment and lower the effects of inflation on the economy; the encouragement of certain activities like specialized industrial and small business, research and development, maintaining environment, personal saving etc. and social objectives like special tax favors to social institutions, special tax exemption to low income groups society.

Income tax is divided into two parts- individual income tax and corporate income tax. Income tax to be paid by individual or couple or sole proprietorship firm is individual income tax where as income tax to be paid by entity is called corporate income tax.

Income tax is superior to indirect tax like sales tax, excise duty etc. because it is imposed on the basis of paying capacity of the tax payer. People, whose income is under the taxable income, are free from the incidence of income tax (Saxena, 1986).

Income tax is charge on person's income. It is a common belief that the income in excess of the person's minimum requirement for his/her living should be taxed. Income tax is imposed on the basis of paying capacity of taxpayers. So it will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount, providing necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. It will also help to increase the consciousness of people because the people who have paid income tax will be interested on public expenditure. They can observe the use of the collected funds. From the collected funds, government can maintain welfare state.

Income tax is based on the principle of certainty in the sense that the government has already acquired the acknowledgement about income tax and tax payers have also already known the amount of tax that will believed to them, i.e. the income tax receipts for the government remains almost certain every years and it can be assessed correctly to certain extent even before the actual imposition of income tax. It also follows the cannon of economy. It increases civil consciousness. It is helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see that public money may not be misused (Marahatta, 1980).

It is no doubt that income tax is main source of government revenue. It is also usable in the balance economic development. No body can doubt that, the equal distribution of income is also possible through progressive income tax. It is being realized that the contribution of income to the revenue of the government must be increased in Nepal. Nepal has adopted the income tax system for the last three decades. But the experience shows that the government is unable to maximize the share of income tax to public funds. Since the entire factor influencing the tax system is dynamic, the system and policy of tax should be evaluated timely adopting an appropriate matching policy for it. Tax system should be made further more progressive, effective, productive and scientific than it is today.

Income tax is basically charged for two purposes namely collecting revenue to meet expenses of people welfare activities and to create equalitarian community by minimizing the economic gap between 'Haves and Haves Not'. It is also justifiable in the sense that it greatly helps for redistribution of economic means by transformation of wealth from persons with higher economic level to lower economic level which will result the minimizing in gap in income by imposing higher rate to those who are having higher income and from the collected amount, providing necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in society; balanced regional economic development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holydays and incentives would help to develop the priority sector of a national economy. "Income tax has been an effective instrument to ensure balance socio-economic growth" (Lal, 1991).

Income tax plays very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective laid down by the constitution of Nepal. It is also recognize as a good financial tool to make narrow the inequality in income. It reduces the regional unbalance by providing tax concession and holydays to the business or industry, which is established in remote and backward areas. Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth, to promote saving and investment and to accelerate economic development. According to modern economist, income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth, to promote saving and to generate more employment. No body can doubt that income tax is also usable in the balance economic development. The equal distribution of income is also possible through that the contribution of income tax to revenue of the government must be increased in Nepal. But Nepal still has been unable to maximize the collection of income tax (Marahatta,1980).

Exemption and deduction are more important for knowing about income tax because they are used continuously and treated differently year to year according through recent income tax Act. Exemption limit is the level of aggregate income below which the tax payer is considers being in "Poverty". By knowing about exemptions and deductions, we can compute net income and tax liability. Income tax law of each nation must clearly mention about the exemptions of income and deduction of expenses.

Although the legal provision is made and updated timely, there are many problems exists in income tax practice in Nepal. the leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax management to cover the new tax payers within the tax portfolio, delay in tax computation and collection, lack of the accuracy and utility in accounting system, increasing habit of tax avoidances, inefficiency of tax administration, high cost of tax collection and administration involvement etc are some examples.

The income tax system of Nepal must be reviewed and immediate correction should be made. The major elements of income tax system are income tax law, policy and its management. Among these income tax management is the most important because the application and realization part is totally played by its management. Furthermore, the necessary correction in its legal provision and policy is possible through the information feedback system provided by its management.

1.2 Concept of Corporate Tax

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do every thing. It can conduct a lawful business and enter into contacts with others in its own name. A company or corporate body is a legal organization that is voluntary created, organized or chartered under law. It is an artificial person which can own property, execute contracts, raise debts and generate profits. Corporate tax, therefore, is a tax levied o n companies or corporate bodied in contrast to unincorporated enterprise. It is the tax on capital income that occurs in the form of profit and originated in the corporate sector i.e. company. The history of tax was started from 1909 in USA when 1% excise was levied in corporation i.e. companies in the ground of the privilege they enjoy. Since then, corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in initial period increased vehemently later on after First World War again started to be shown turned since 1980s (Kandel, 2000).

First we consider taxes on corporate income and assume that the tax is assessed on the profit (income of the corporation). The tax base is defined, for purpose of this theoretical analysis, as profit in economic sense, total revenue minus total cost. Total cost includes purchase of raw materials and other intermediate products, a capital consumption allowance (depreciation) and all factor payments including the normal return to invested capital just sufficient to keep that capital employed in the firm. Economic theory teaches the under conditions of perfect competition the profit maximizing firm in the long run will earn no pure economic profit and the corporate income tax will therefore raise no revenue and have no long run effect. Therefore, we assume imperfectly competitive profit maximizing corporations where the firm may earn long –run economic profit and thus incur corporate income tax liabilities.

The corporate income tax is not a cost of doing business in the ordinary sense. It is not a variable cost directly related to the firms output and it is not a fixed cost. In fact, a tax liability may be avoided by not earning economic profit. Traditional analysis of the corporate income tax conducted that the tax cannot be shifted at least in short –run, because the profit maximizing firm produces and sells that output where marginal cost is equal to marginal revenue. Marginal cost equal and additional cost that must be paid for variable inputs as the firm and various it’s output; since this altered by the tax. Therefore price and output are unaffected and the incidence of the corporate income tax falls entirely on the firm’s owners who find their after- tax, pure economic profit reduced. Since the tax is some portion of profits, maximizing before tax profits will also maximize after tax profit.

On the other sentences, corporate income tax is explained as “ Taxable corporate income is basically defined as the gross receipts of the corporation reduced by the expenses incurred producing those receipts which include the proceeds from sale plus whatever dividend or interest income the corporation receivers. The cost of producing these receipts includes wages, salaries, rents and interest as payments to factors of production; purchase of raw materials and manufactured inputs; national, states and local taxes, charitable contribution(within limit): and advertising expenditure to raise all these are state forward deduction. In addition, depreciation (or capital consumption) allowance, and depletion allowance in extractive mineral industries are permitted deductions; these provision are controversial and are taken of in detail as the discussion develops dividend paid on the equity capital of the corporation are not deductible to the extent that individuals represent a normal return to equity capital, the Inland Revenue Department of Nepal’s (IRD/N) destination profit differ from economist definition. Thus, the base for corporate income tax is the economic profit of corporation subject to certain qualifications which are of controversy.

Two basic approaches to the taxation of corporate income are the integration and the segregation.

In essence, corporate income tax is defined as a direct tax levied by the government on the profits occurring to business, companies, corporation etc. or, A tax imposed on the annual get earnings of a corporation (Dictionary of Business and Economic, 1977).

1.3 Statement of the Problem

Underdeveloped countries are facing serious problem in the process of economic development. Nepal is not an exception to this condition. To solve that problem, it requires huge amount of capital for economic development. The rate of government expenditure is exceeding the rate of growth revenue almost every year from the beginning of its development phase.

The study of Nepali budgets indicates that there is a significant resource gap. The source of filling up the resource gap is internal and external borrowings. The external borrowings has been playing dominant role while fulfilling the resource gap. The use of borrowings to fulfill the growing government expenditure brings various problems which are mentioned above. This is because; the income tax has been playing any significant contribution to the government revenue.

Being developing country, most of the Nepalese people are below poverty line (about 42% of total population) and GDP per capita is $ 240 (according to world development report- 2004). It shows that it needs huge amount of capital for economic development of Nepal. It is possible only when the volume of resource could be matched with requirement. The source of filling up to the resource gap is internal and external borrowings.

As means of economic growth and social justice, corporate income tax has not succeeded to play significant role in Nepal tax structure. The direct tax had contributed 19.93% of total revenue in 2007/2008. It shows that government is largely depending upon indirect tax.

People in developing nations tend to have greater propensity to evade taxes. This is because the have lesser knowledge about income tax and they have to maintain their livelihood from their limited income. Rich people are avoiding taxes by using legal loopholes and takings advantages of an inefficient tax administration. Recent notice of authority misuse investigation commission has proved that there is a corrupt bureaucracy in revenue office or tax office.

In Nepal, the coverage of corporate income tax is very low. There is poor tax paying habit of Nepalese people. The tax authorities are inefficient and in effective in enforcements. There are no integrated programmers for tax payer's education, assistance guidance and counseling. Tax officers are looked upon as heaven for corruption, harassment and incompetent personnel. The assessment procedure of income tax is not effective, undue delay in tax assessment not only reduces the total revenue, but also brings harassment to the tax payers.

Corporate income tax system is not so efficient in Nepal. It is not free from problems. The income tax management has become unable to wide the income tax coverage. In Nepal the coverage of income tax is vary low. In developing countries, 30 to 40 percent of total population pays income tax and it occupies 21 to 40 percent of government revenue. But in Nepal only about 0.5 percent of total population pay income tax which contributes only about 8 percent to the total revenue. Thus, the contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be achieved only if the government of Nepal takes firm steps for making the income tax management efficient. Nepal is facing vary serious problem of income tax management according to the budget speech of MOF of Nepal government.

There are various problems of corporate income tax in Nepal; more specifically, the study would be carried out to answer the following research Questions:

- What provision are the corporate income tax system under present Nepalese tax system?
- What portion is covered by its (CITR) in national revenue, tax revenue, direct tax revenue, income tax revenue and its structural composition?
- How its relationship each above stated parts and what will be remained in coming year?

1.4 Objectives of the Study

The main objective of study is to analyze the contribution of corporate income tax to government revenue of Nepal .Other specific objective of the study are listed below.

1. To analyze the provisions of corporate income tax system under the present income tax system of Nepal.
2. To observe and find out the portion and trend of corporate income tax on government revenue of Nepal.
3. To identify the major problem of corporate income tax system under income tax Act 2058.
4. To provide necessary suggestion and recommendation.

1.5 Scope of the Study

The study tries to cover the major constituent of corporate income tax system in Nepal it aims to find out the major problems of defects in corporate income tax and tries to suggest appropriate mechanism for effective corporate income tax in Nepal.. How ever, the major areas of this study would be as follows:

- Corporate income tax in Nepal.
- Structure of government revenue in Nepal.
- Contribution of Corporate income tax to the government revenue and GDP.
- Income assessment process.
- Administrative aspects of corporate income tax in Nepal.

1.6. Importance of the Study

Developing countries like Nepal can fulfill its financial needs by increasing its revenue through income tax, so the importance of income tax cannot be minimized in the public finance of a nation. Revenue from income tax can be maximized either by imposing taxes at higher rate, or introducing new taxes or collecting income tax properly within existing portfolio. Increment in income tax rates may be more burdensome to the people. Moreover, the poor people can not bear the incidence of more tax. Introduction of new taxes and proper collection of tax depend on good income tax system (law, policy and management). Income tax system of Nepal is of high importance is facing different types of problems and sufficient and timely researches are not being made on it. Thus, the research on it must be done to through out the existing problems and develop new and smooth income tax system in Nepal. Thus, this study will be helpful to economists, planners, tax officers, tax administrators and those people who are interested to know tax, or to work on similar ground. Moreover, it will be useful to government to do proper income tax management and to attain the objectives of income tax. Also it will be useful to students, teachers, professors, researchers and other interested persons.

1.7 Limitation of the Study

The following are some limitation of this study:

- The study is strictly confined to the corporate income tax system in Nepal.
- The study only covers the last five years situation.
- Due to time constraints limited respondent representing different groups are selected for the study.
- Opinion survey is limited in Kathmandu valley only.

1.8. Organization of the Study

The study has been divided into five chapters they are as under:

Chapter – I Introduction

Chapter – II Conceptual Framework and Review of Literature

Chapter – III Research Methodology

Chapter – IV Presentation and Analysis of data

Chapter – V Summary Conclusion and Recommendation

The first chapter is about the introduction, which includes background, statement of problem, objective of study, scope of study, importance of study, limitation of study and organization of study.

The second chapter is about review of literature, which includes conceptual review, and review of related studies. Conceptual review includes the revenue system of Nepal, role of income tax in revenue system and income tax laws and policies are described. For review of related studies some books, dissertations, reports and articles have been reviewed.

The third chapter is concerned with research methodology. In this chapter research design, population and sample, nature and source of data, data collection procedure, data processing procedure and analysis of data and weight of choice have been described.

The fourth chapter of study is about presentation and analysis of data. This chapter aims to make the critical analysis of income tax management of Nepal. The first part of this chapter deals with income tax management and the other part concern with empirical analysis where collected data through opinion survey have been presented and analyzed.

The fifth chapter is mainly concern with finding summary, conclusion and recommendation.

Appendix and bibliography have been presented in the last part of the study. Thus the research study has been organized.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND

REVIEW OF LITERATURE

2.1 Introduction

This chapter highlights on the literature that is available in this topics. It includes literatures regarding theories on the topic and review of the empirical evidences of previous studies, done. In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc are reviewed. The first part of this chapter describes about the theories of income tax, corporate income tax etc, second part is confined to review those literature carried out previously.

2.1.1 Income Tax in the Nepalese Context

More and more financial resources are needed to meet the increasing expenditure for growing development and regular activities. Emphasis has been given to the fulfillment of financial needs from internal resources specially the taxes. But it does not mean that there are no other sources to meet such needs. Because of some reasons, the tax revenue is emphasized. The objective of revenue collection is not only to finance growing expenditure, but also to achieve other goals; like social justice, balance regional development and distributive motive3s etc. For this purpose, the direct tax basically income tax is assumed as a best weapon. Income tax also considers the 'ability to pay'. Hence, income tax is pushed up as the effective instrument for development, stability, and equality in the developing countries.

People in developing nations tend to have greater propensity to evade taxes. This is so because the probability of being caught and the consequences of it are not very serious. Rich people resort to avoidance of taxes by recourse to legal loopholes and by making advantage of administrative deficiencies. Self-employed sector is more prone to evasion and avoidance. In India, barely 10 percent of professionals maintain accurate accounts of their income and expenditure. In Nepal, the evasion of income tax seems to be pronounced especially by people who enjoy better economic positions. Indeed, the income tax potential is much higher than that realized presently.

A concentration of top 10 percent of the income receivers would be sufficient to make income tax productive in developing nations. In Nepal, however, the coverage of this tax has remained very low. Taxpaying habits are undeveloped and there is general lack of tax consciousness in the people. There is no proper climate of voluntary compliance by the taxpayers. Tax authorities have been ineffective in enforcement. There are no integrated programmes for taxpayer's educations, assistance, guidance and counseling. Tax offices are looked upon as havens for inefficiency, delays, unfair dealing, harassment, and non-professional and corrupt personnel. HDR also supports this evidence.

The major problem in taxation is "who bears the tax". Traditionally, it has been advocated that the incidence of an indirect tax is largely shifted forward, and tat of a direct tax is on these on whom it is levied. The process of the transfer of tax is known as "shifting" of the tax, while the settlement of the burden on the ultimate taxpayer is known as “incidence”. The incidence of the tax is generally measured by the reduction in real income that results from the imposition of that tax. This incidence of tax has far reaching implications for distributions of income and wealth. HDI and GPI have set the indicator for fiscal reform.

Income tax in developing nations has been regarded as instrument of growth and social justice. Experience in most of the developing countries, including Nepal, has shown that income tax has not succeed in achieving either of these goals because only small part of the total national income comes under the purview of income tax. In Nepal, indications are that income tax has not played a significant role in reducing the inequalities of income and wealth.

2.1.2 History of Income Tax in the World

In early days, taxes were not collected regularly but collected at the time of emergencies to finance specially wars and for communal services. Taxes were levied on the basis of welfare of the people and they were eager to pay taxes because non-payment of tax was taken as sin in the Hindu tax system. According to Hindu’s scripture, the duty of King was to serve and secures his people and maintains peace and carry out social works. For the performance of these activities, the king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

The Great Britain is the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in

U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax temporarily until 1860. Since 1913 it was accepted as permanent tax. Thus, different countries adopted income tax gradually (Agrawal; 1980)

Italy started it in 1864, and New Zealand adopted in 1891, Austria and Canada had followed the income tax in 1915 and 1917 respectively. After the First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980).

In our neighbors country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of income tax act 1886 (Agrawal, 1980).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at a flat rate. The Principle of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now-a-days the progressive tax rate is commonly used rather than flat rate in all over the world. Other EU countries are also adopting the progressive rates these days.

2.2 Evolution of Taxation in Nepal

2.2.1 Taxation in Ancient Nepal

Tax has been one of the major sources of national receipts since the ancient time in Nepal. In those days, tax was collected in the form of cash, kind and labour from the merchants, travelers and farmers. However, the nature of tax levied by the government was temporary type in the old age. In the Lichachivi regime (Known as Golden Era), taxes were the main sources of revenue. In that period taxes were known as “Trikar”, which meant three kind of taxes Viz, “Bhaga”, “Bhoga”, and “Kara”.

The Bhaga was lived on agriculture, Bhoga was on animal and Kara was on business man. These taxes were introduced as direct taxes for the first time in Nepal. Irrigation tax and religious monuments preservation taxes also existed at the time of king Anshubarma in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and1/12 share of production depending on the quantity of the land possessed by them. All artists had to donate labor compulsory as the tax payment (Koirala, 2005).

2.2.2 Taxation in Unified Nepal (1768-1846)

After uniformities of the kingdom of Nepal expenses for administration, military and other operational activities were increased gradually. During that period, the taxation had been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, forest product tax and mining tax were levied. The main objective of imposing those taxes was to maximize the national revenue. In that period taxes were collected from three levels: Royal palace, central government and local authorities. They collected cash or goods from taxpayers as taxes. Royal palace had levied taxes like Walak, Gaddimubarak, Chumawan and Goddhawa.

Government had lived taxes like Darshan Bhet and salami and local authorities had levied taxes on forest and water sources; commercial taxes like customs; transits and market duties; mine and mints; export of forest product like hurbs, wax, drugs, and wild life, birds, elephant and judicial fines. Taxes from land and business were type of direct tax among the all taxes during that period.

'Walak' was collected from each family in period of national celebration or festivals. Similarly, 'Gaddimudarak' was collected in the time of coronation ceremony of new king 'Chumawan' and Goddhawa' were collected in the time of investiture and marriage ceremonies of royal princes and princesses and 'Gadan' was levied at the time of death of reigning king to meet funeral expenses. 'Darshan Bhet' was collected from civil and military employees at time of their appointment and conformation of jobs. On the other hand, 'Salami' was collected by the local authorities in the Terai region. After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main source of revenue from land ware Birta and Kipat.

The founder of the modern Nepal king Prithivi Narayan shah had introduced 'pota' tax in 1772, which was regarded as revolutionary measure in the fiscal system of Nepal.it was based on flat rate system rather than progressive rate. It was limited on small Birta owners. Though taxation was started, there was no income taxation in the modern sense (Koirala, 2005).

2.2.3 Taxation in Rana Regime (1846-1950)

During the rana regime, there was no provision of effective revenue administration. The main source of revenue were land revenue, customs and export of wood, which was collected in the lump sum, contract basis during that period and the salami was collected from government employees as the revenue income tax. Besides, these taxes small other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal Tax Act and Finance Act.

Taxes were charged according to the will of the rana prime minister. Both the incomes as well as expenditure of the government were confidential. In actual practice no difference existed between the private purse of the ruling prime minister and the government treasury (Thapa, 1993) therefore, income and expenditure of the state were not transparent because there was no practice of presenting the budget too in that period.

Rana prime ministers levied taxes for meeting specific expenditure of the royal household of extraordinary expenditure necessitated by war or other crises rather than regular mobilizing revenue in the nation. During Nepal-Tibet war (1855/56), the first Rana Prime Minister Janga badhur Rana had imposed a leavy of 1% on the official value of Jagir assignment of government employees in 1891 to finance the transportation of water pipe supply in the capital. Another Rana Prime Minister Ranoddip singh imposed a 50% tax on the income made b fisherman in Deukhuri from the sale of fish in 1882 (Koirala, 2005).

2.2.4 Income Tax in modern Nepal (Since 1950)

Actually, the modern income tax Act started in 1959 in Nepal. After the political revolution in February 1951 (2007 B.S.), the role of the government had increased. The government of Nepal had presented its first budget in 1952 (2008, Magh 21). The first five-year plan started in 1956 (2013-2018). Thus, the changing role of the government demanded more revenue and Nepal also felt to levy tax on income as a permanent source.

The government issued first finance ordinance in 1959(2016) to impose tax on business profit and remuneration. In 1960 (2017), the income tax Act named "Business profit and remuneration Tax Act, 2017" was made. This was the first income tax Act, which had 22 sections. But this act was found narrow and vague. So it was replaced by the income tax Act 1962 (2019). This Act continued for twelve years and it was also replaced by the income tax Act, 1974 (2031). This act was amended eight times in 1977,1979,1980,1984,1985,1986,1989 and 1992 respectively. New income tax Act 2002 (2058) replaced that tax Act. This is the fourth income tax Act of Nepal. Nepal government framed income tax rules 2059, in 2059 to help clarifying the act.

Now the tax system of Nepal is made of its three major sub-systems. They are as under:

1. Income tax law and rules
2. Income tax policy of the government

3. Income tax management

Parliament provides the legal provision towards income tax. Necessary acts are discussed and passed in the parliamentary meeting.

Income tax policy is determined by the government itself. The policies determined by government can be short term or long term. Short term policy can be defined as the steps that one taken within the period of one year and long term policy as the steps that are taken in more than one year period.

Its management carries the implementation of income tax law, policy, strategy, rule, objective and programme. Income tax management implement the income tax provision made by income tax law and objectives, policies and programme of the government. Furthermore, laws and policies are corrected and reformulated through the feedback information from the experience of income tax management. So the income tax management it the major element in the income tax system of Nepal. Major problems of the income tax system of Nepal are also associated with its management (Koirala, 2005).

2.3 Income Tax Law

The fiscal year 1959/60 was the beginning of income tax act in Nepal. The income tax act 1974 continued for 28 years with eight amendments. According to the section 65 of income tax Act, 1974, his majesty government had made the income tax rules 1982 to implement the objective of income tax Act.

Each year the finance Act is passed to translate the fiscal policies and programmes in the budget speech in to law. It generally prescribes the tax rate and exemption limit for tax purpose and it may abolish, add or modify the provisions contained in the income tax Act. The decisions of the suprime court also act as precedent for income tax law purpose. The notifications or circulars in Nepal Gazette by Inland Revenue Department clarify and complement the legal provisions.

The income tax act, therefore, has relations with constitution, finance Act, Income tax rules and decisions of Supreme Court. These make clear the provision in income tax law. Income tax Act is guided by the constitution of the country. Latest income tax Act "Income tax Act 2058" of Nepal is also guided by the constitution of Nepal 2047 B.S. this constitution states that "No tax will be raised without Laws"(The constitution of Nepal ,2047,SEC 73-1). Income tax Act is formulated to raise income tax accordance with the spirit of the constitution. Present provision of income tax is associated with the following legal consideration.

- The constitution of Nepal, 2047.
- Income tax Act 2058.
- Income tax rules 2059.
- Finance Act of current fiscal year.
- Legal precedence establish by the court.

Income Tax Act, 2002 (2058)

The draft income tax Act, 2002 (2058) also proposed to bring all source of income including capital gains into the tax net (Khadka, 2001).

This fourth income tax Act of Nepal has been made to minimize the weaknesses of previous act and for more collection of national receipt (revenue) for the economic development by improving collection procedure of revenue.

This act is also necessary to amend and integrate according to modern age with international taxation system. It is essential to make new income tax act corresponding with extended income tax scope and changing form of tax administration. Thus the new income tax act 2002 (2058) was passed. It was issued and implemented from 1st April 2002 (19 Chaitra 2058). This Act has been amended four times in 2059,2059,2060,2061 B.S.

The main objectives of income tax Act, 2002 are as under:

- To levy tax on all people and all sources.
- To impose uniform tax to all people and all sources.
- To make income tax revenue more productive and elastic.
- To develop the tax system by means of extended scope, clear cut, transparent and simple procedure.
- To make accountable and improvement tax administration.
- To reduce economic cost neutralizing income tax.
- To emphasize statement based on accounting system.

To make responsible to income taxpayers emphasizing procedure of self-assessment system (Khadka, 2001).

This Act is broad, scientific and international standard level. Various new concepts are introduced in this act as compared to income tax Act 2031. Many of the concepts are put forward in this Act were not prevailing in Nepalese tax culture. The various additional provisions provided by Income Tax Act 2058 are mentioned below (Income tax Act, 2058, MOF/NG Nepal):

1. Income tax Act 2031 had classified income tax into five heading where as this act divides only into three headings.
2. Subject to this new Act, income is defined as “a person’s income from any employment, business or in accordance with this act”. It includes all kind of income received for the provision of labor or capital or both in whatever form or nature in the taxable income.
3. The act has given the option for husband and wife as a separate natural individual until they don’t accept as a couple.
4. A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person’s assessable income for the year.
5. There is a provision of functional division of work among tax officers. The division is to be made under the direction of HMG and director general.
6. The penalties are divided into two parts the tax officer can levy only fines and interest and the court can levy penalties and imprisonment.
7. This act has guaranteed the right and secrecy of taxpayers through the act and strict punishment for non-maintaining the secrecy are provided.

8. This act has determined the rate of income tax itself for the first time, which used to be determined by the finance act in the previous years.
9. For the purpose of calculating a person's income from any business or investment, there are provisions of deduction related to overhead costs.
10. The government allowance to widows, elder citizens or disabled individuals, gift, bequest inheritance, scholarship income of foreign officials government bodies and non-profit organizations have been exempted from the income tax net. Amounts of a person privileged under bilateral or multilateral treaty, an agricultural income, income of cooperative societies based on agricultural products and dividend of such society etc. also exempted from income tax.
11. A person has been defined as a resident whose normal place abode is in Nepal and who presents in Nepal at any time or who presents in Nepal for 183 days or more within the income years or who is an employee or an official of HMG Nepal posted abroad at any time during the income years.
12. Under this act, resident, individuals and domestic companies are taxed on their worldwide income while non-resident individuals and foreign companies are taxed only in their income sourced in Nepal.
13. According to this act, a company is liable to tax separately from its shareholders the bonus share, loans and advances to directors and shareholders, distributions made on liquidation etc are also brought under the tax net in order to plug loopholes for avoidance.
14. The income of approved retirement fund is fee from tax. But retirement payments in the hands of employees are taxable.
15. Capital gains are taxed explicitly under this act after four and half decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and in case

of non-business capital gains; only the gains from casual sales of real property (land and building) and securities are subject to capital gain tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.

16. The Act is based on global income tax principal and brought al sources of income into the tax net and has treated in an equal manner. This act has abandoned the itemized system of deduction and expenses are taken into account on a global manner not on a line-by-line basis.
17. The Act has adopted a pooled system of depreciation in which assets are broadly classified into five categories. The depreciation rate are 5%, 25%,20%, 15% for class A, B, C and D respectively which are based on diminishing balance method of depreciation and for class E the rate is based on straight line method.
18. The Act has introduced the concept of medical tax credit facility for an individual with respect to approved medical expenses not exceeding 15% of the amount of approved medical cost.
19. This act focuses on the self-assessment system and every assessment is treated as a self-assessment. The tax officers can determine only the amended tax assessment within four years. The jeopardy assessment is essential when a person becomes bankrupt is wound up or goes into liquation, a person is about to leave Nepal for ever or to close down activity is any department or in Nepal, there is no time limit in the case of jeopardy assessment.
20. Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs 1, 00,000 or annual turnover is up to Rs 1 million and are subject to flat annual taxes.

21. This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue department should give its decision within 90 days of the submission of objection and if the department does not give its decision within the given time limit, the tax payers can appeal to the revenue tribunal.
22. According to this act the Inland Revenue Department is responsible for the implementation and administration of this act.

Although the legal provision is made and updated timely, the income tax law of Nepal is not free from weakness. It has unclear words and some words can be defined according to the interest. Much discretionary power has been provided to the tax officers especially in the matter of tax assessment.

2.4 Income Tax Policy

To be a successful income tax system, sound income tax policy is essential. The government especially by Finance Ministry determines policy towards income tax. Income Tax policies are the broad objectives and ways of doing in the matter of income tax. Policies play the supportive role to the income tax law. In Nepal, the policy of the government is generally seen in the finance act of each year. This success of strategy and policy is totally depended upon its implementation. “A good strategy without effective implementation has a lower probability of success.” Since implementation part of income tax policy is played by its management the success and failure of income tax policy depends upon its management.

2.5 Sources of Income Tax

A source of income tax is very difficult to define precisely and clearly this is known from renowned authors. But also the use in actual life, all the incomes generated by any means should be summed up for the measurement of taxable income under this assumption. Because of this difficulties income is exemplified rather than defined income tax laws of various countries. Section 2 (s) of income tax act 2031of Nepal has defined income as the cash or in kinds which are received from agriculture, industry, business, profession, or vocation, remuneration, house and land rent and other sources which had been abolished or amended since 2058 then began to implement from some date of amending Income Tax Act -2031.

Income Tax Act – 2058 try to cover (all) global income into tax net. As a result, it classified its sources of income tax is as follows with brief description which are mentioned in that act.

Income from Employment

It covers all income which is earned by employment labour of anybody of one income year. An individual’s income from an employment for an income year is the individual’s remuneration from employment of the individual for one year [ITA- 2058 chapter-3, Sec -8(1)].

Income from Business, Profession, Vocation etc.

It covers all which earned by employing labour and capital altogether from any body and any organization of one income year "A person income from a business for an income year is person's profit and gains from conducting the business for the year [ITA – 2058, ch-3, and sec -7 (1)].

Income from Investment

It covers all income which is earned by employing capital in certain sector of one income year. "A person's income from an investment for an income year is the person's profit and gains from conducting the investment for the year [ITA-2058, ch-7, sec-9 (1)].

2.6 Types of Income Tax

Most of the country is broadly classified her income tax into two groups and more on the basis of legally registration in respective department of concern government of Administration Division. Those classifications may be depending upon corporation status and individuals etc. which brief description are as follows.

Individual Income Tax

The case of a system of strict personal taxes is persuasive one carried on it logical conclusion, it would abolished even the corporate tax in favour of an extension of personal income taxation to undistributed corporate earnings. There would be remained the question of just what kind of personal tax system should be established. It is more difficulty to its classification in between corporate and individuals income tax. To identify various legal system of individual income tax is depend upon the related country rules, regulations and policies etc. So to know its meaning a renowned author named Henary Simons. He argued that an individuals (or household's) consumption, plus charges, including accrued changes, in net wealth during an accounting period constituted the proper base for an income tax. Alternatively this concept can be interpreted as meaning that one's ability to pay taxes is measured by amount by of consumption that could be undertaken during the year and still maintain one's wealth at its initial level . Most economist subscribe to this definition in principle. The tax base that has emerged in practice diverges considerably from Simon's norm: the divergence result from three factors; exclusion from taxable of income from certain sources, personal exemption, and allowance deductions.

Personal receipts necessary to cover expenses incurred as the tax payer earned his income are not income and are excluded exemptions from personal income (Dictionary of Economic, 2001).

However, the taxpayer's total receipts minus such exclusion are called adjusted gross income. Exemption and deduction are subtracted from adjusted gross income to derive taxable personal income.

Therefore,

Individual Income Tax = Total receipts- Exclusion – Exemptions

OR,

Adjusted gross income = Total receipts – Exclusion

OR,

Individuals Income Tax = Adjusted gross income – Exemptions

2.7 Corporate Income Tax and its Development in Nepal

Concept of Corporate Tax

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do every thing. It can conduct a lawful business and enter into contacts with others in its own name. A company or corporate body is a legal organization that is voluntary created, organized or chartered under law. It is an artificial person which can own property, execute contracts, raise debts and generate profits. Corporate tax, therefore, is a tax levied o n companies or corporate bodied in contrast to unincorporated enterprise. It is the tax on capital income that occurs in the form of profit and originated in the corporate sector i.e. company. The history of tax was started from 1909 in USA when 1% excise was levied in corporation i.e. companies in the ground of the privilege they enjoy. Since then, corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in initial period increased vehemently later on after First World War again started to be shown turned. Since 1980s (Kandel, 2000).

First we consider taxes on corporate income and assume that the tax is assessed on the profit (income of the corporation). The tax base is defined, for purpose of this theoretical analysis, as profit in economic sense, total revenue minus total cost. Total cost includes purchase of raw materials and other intermediate products, a capital consumption allowance (depreciation) and all factor payments including the normal return to invested capital just sufficient to keep that capital employed in the firm. Economic theory teaches the under conditions of perfect competition the profit maximizing firm in the long run will earn no pure economic profit and the corporate income tax will therefore raise no revenue and have no long run effect. Therefore, we assume imperfectly competitive profit maximizing corporations where the firm may earn long –run economic profit and thus incur corporate income tax liabilities.

The corporate income tax is not a cost of doing business in the ordinary sense. It is not a variable cost directly related to the firms output and it is not a fixed cost. In fact, a tax liability may be avoided by not earning economic profit. Traditional analysis of the corporate income tax conducted that the tax cannot be shifted at least in short –run, because the profit maximizing firm produces and sells that output where marginal cost is equal to marginal revenue. Marginal cost equal and additional cost that must be paid for variable inputs as the firm and various it's output; since this altered by the tax. Therefore price and output are unaffected and the incidence of the corporate income tax falls entirely on the firm's owners who find their after- tax, pure economic profit reduced. Since the tax is some portion of profits, maximizing before tax profits will also maximize after tax profit.

On the other sentences, corporate income tax is explained as " Taxable corporate income is basically defined as the gross receipts of the corporation reduced by the expenses incurred producing those receipts which include the proceeds from sale plus whatever dividend or interest income the corporation receivers. The cost of producing these receipts includes wages, salaries, rents and interest as payments to factors of production; purchase of raw materials and manufactured inputs; national, states and local taxes, charitable contribution(within limit): and advertising expenditure to raise all these are state forward deduction. In addition, depreciation (or capital consumption) allowance, and depletion allowance in extractive mineral industries are permitted deductions; these provision are controversial and are taken of in detail as the discussion develops dividend paid on the equity capital of the corporation are not deductible to the extent that individuals represent a normal return to equity capital, the Inland Revenue Department of Nepal's (IRD/N) destination profit differ from economist definition. Thus, the base for corporate income tax is the economic profit of corporation subject to certain qualifications which are of controversy.

Two basic approaches to the taxation of corporate income are the integration and the segregation.

In essence, corporate income tax is defined as a direct tax levied by the government on the profits occurring to business, companies, corporation etc. or, A tax imposed on the annual get earnings of a corporation (Dictionary of Business and economic, 1977).

Therefore,

Corporate Income Tax = [All income of Corporation with Capital Gain – All General expenses of corporation business as well Capital gain – Special Deductible Items which are Enacted by Taxation by Laws and regulation] × Tax Rate

2.7.1 Corporate Income Tax System

Corporate income Tax System includes those rules, regulations, policies, Provision of a country where all taxation frameworks depends upon within its description which are explained to achieve certain targeted mission, goal and objectives of nation on the side of taxation, are formulated under the general accounting principles as well as socio- economic environment of a country.

Within it, a country tries to define its all sources of income. Among those, corporation sector income taxation is most important for every nation. Most of countries socio- economic are operating and a country lives within its fluctuation.

Corporate income tax system means that country taxation system where ; what is corporation, where its registration for tax purpose, which kinds of tax base is adopted with its and what rate, what are the rules, regulations ,policies on about it, what kinds of business transaction and entities are involved within its definition, what is tax collection, assessment procedure and enacted respective tax act(s), who are taxpayer and officer and their rights, duties, and responsibilities and its organization structure, refund policies etc are included in a good and sound tax system.

Moreover, the whole tax administrating, monitoring and supervision are also involved within. In addition, justice of court also explained by respective taxation system. Therefore, the following headings are involved is corporate income tax system.

- Meaning of corporation for tax purpose.
- Registration of corporation for tax purpose.
- Assessment or computation and collection procedure.
- Organization structure of corporation income tax of administrative.
- Appeal system (if injustice felt by a taxpayer)
- Refund and audit
- Tax Administration and Management

2.7.2 Development of Corporate Income Tax in Nepal

The history of corporate tax is not so long. This tax was introduced only in 1960 with the Business Profit and Remuneration Tax Act, 1960 at the first time. Initially corporate income tax was not differentiated from personal income tax. All the taxpayer persons, companies and private firms were imposed at the same rate with progressive and exemption limit prescribed by Finance Act 1960 to1964. The tax exemption given to companies as similar to personal taxpayer was withdrawn from the financial year 1965/66. A separate tax system to companies was introduced by the Finance Act, 1976.

The third income tax act was introduced in 1974 with making new changes and provision than old one. A separate tax system to companies was introduced by the Finance Act, 1976.Finance Act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. Fiscal year 1986/87 was the year when the corporate tax was really recognized by imposing a flat rate of 40% tax on taxable income of the listed companies. The same Finance Act imposed tax on dividend also to be deducted at sources at the rate of 20% which after the filling of return by shareholder was to be reconciled. But the dividend tax system was changed exempting dividend to a level of 85% in 1987/88 and cent percent in 1990/91. Compulsory self tax assessment system for public and private limited company was enacted from the financial year 1994/95. This change support to end the discrimination between private company and public company. Another major changes was carried out in the fiscal year 1988/99, was the inclusion o f dividend of non industrial companies within the tax net.

Nepal originally combined corporate income tax with individual income tax. The same rate structure was designed for corporate income and other income for many years. In 1986/87, a flat rate corporate tax was introduced for Government Corporation and public Limited Corporation listed with security exchange center. Corporate tax was extended to private limited companies in 1993/94 and partnership firms in 1995/96 (Khadka,1997).

After enactment of income Tax Act, 2002, the corporate tax levied upon general industries is 25%, 30% for insurance company and financial instructions. Trading company's are levied tax at the rate of 25%, manufacturing industry at 20% and specials sector company at 20%.

2.7.3 Corporate Tax Base in Nepal

There are controversies as regards to the choosing of corporate tax base Since there may be various bases of taxation. For instance, these bases may be income, cash flow, turnover, total assets and added value etc. Among these, two base income and cash flow are mostly considered by the tax expert (Kandel, 2005).

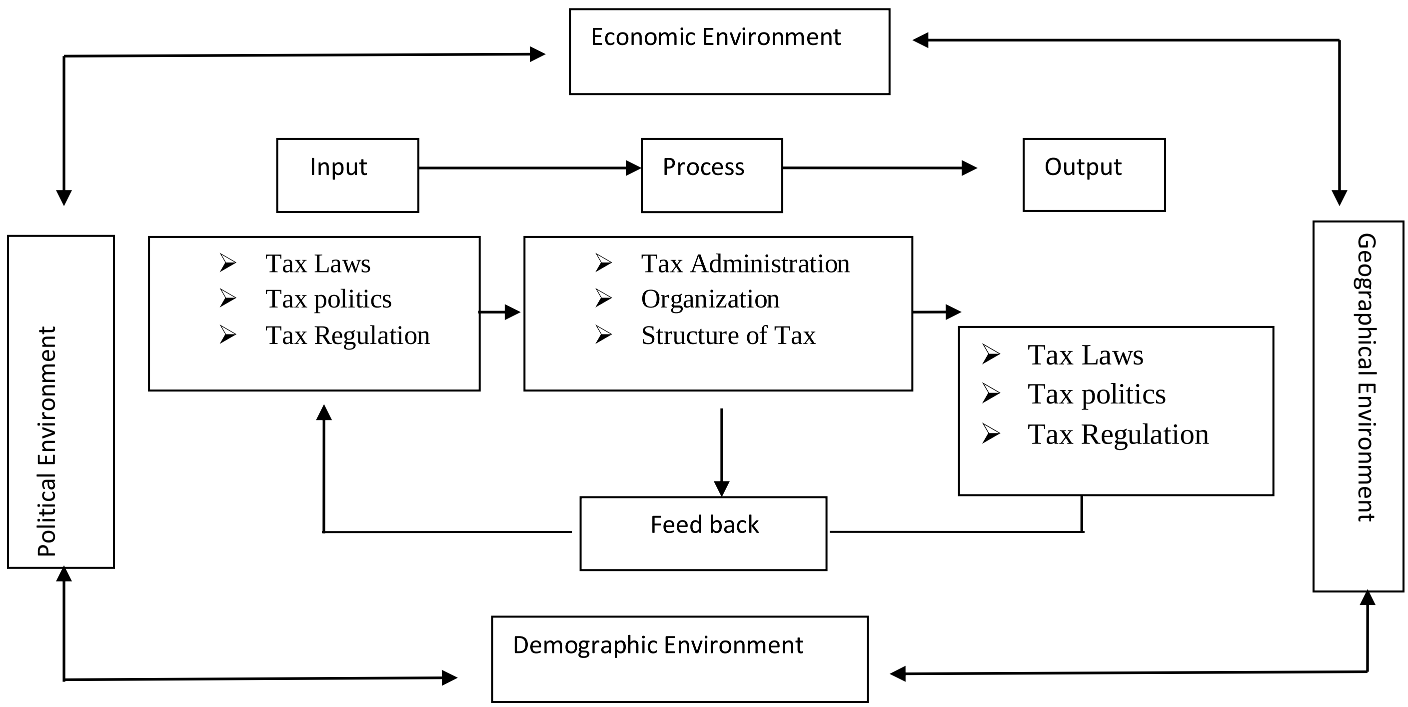
The standard tax base is corporate income, which is the different between the revenues from the sale of goods and services plus financial income on the one hand, and wages, depreciation, inventory costs plus interest on the other. Such cost are broadly revenue expenses incurred in the ordinary course of conducting day to day operation, and amortization of capital costs. Under the income based tax system, many developing countries provide substantial tax incentives in the form of exemptions and deductions such as accelerated depreciation, investment tax credits or allowances, tax holiday etc.

Tax base may depend on the relation between corporate tax rated and personal tax rates. Different countries of the world have different choice of base for corporate tax. Most of the countries prefer corporate profits or book profits as the tax bases (Khadka, 1994).

If income is taken as the base of taxation, it in called income basis or profit basis. It means deduction of interest on debt and depreciation of fixed assets from gross profit and adjustment of capital gain, stock appreciation or depreciation etc. Since, it is calculating tax base is adding up all the incomes of the company and deducting expenses incurred in earning the income. However, because of its cumbersomeness in finding out taxable income, modern tax experts are in favour of replacing it. The main cause of the cumbersomeness are treatment of revenue and expenses on accrual basis, treatment of depreciation under historical cost, measurement of capital gain and effect of inflation either interest or valuation of stock. The cash flow tax, on the other hand, is the alternative considered by economists and tax experts to replace income based taxation (Kandel, 2000).

Like other countries of the world, Nepal is also following the method of making income as base for corporate taxation. The procedure of finding out taxable income is adding up the all items of revenues that are taxable and deducting all expenses which are allowable.

Above stated things, corporation income tax system elements are corporation income tax laws, rules, regulation and it policies, administration as management and supervision, monitoring etc. are used as feed back mechanism. Therefore,



2.8 Tax Policies, Rules and Regulations

2.8.1Taxable Entities

Resident Entities

A company which is resident in the Nepal is liable to corporate tax and its worldwide income capital gains. A company is resident in the Nepal if it is incorporated in the Nepal or has its central management and control located in the Nepal. Resident entities is defined a trust that is established in Nepal or has a trustee that is a resident person for the income year or controlled directly or through one or more interposed entities by a person or person one of whom is a resident person for the income year in sec 2(ao) 3 and a resident company that is incorporated or formed under the laws of Nepal or has its effective management in Nepal during the income year or a village development committee or a political sub division of the foreign government such as entity.

If it is incorporated or formed of Nepal or it has effective managements in Nepal during the income year and any institution or entity established under entities or a foreign permanent established of anon resident persons situated in Nepal etc.[sec 2(ao)-4]

Non- resident Companies

\A non- resident company is liable to the corporate tax on profits and capital gain attribute to the carrying on of a trade in the Nepal through a branch or agency, at the same rate as a resident company. Other capital gains are not taxable. Other Nepal sourced income is subject to income tax not corporate tax. The general principle may be modified by a relevant double tax treaty. Non –resident entities are defined as other than resident entities.

2.8.2 Tax Year and Filling Requirement

The income tax year running from 1st Sharwan to the following 31st Ashad is relevant for corporative tax purpose. Rate of corporate tax is set for one financial year ending an 31st Ashad. A company may make up its accounts to any data it chooses and where this is other than 31st Ashad and the rate has normally not changed after introducing income tax Act -2058. But fiscal policy is mentioned subordinate special provision. The profits of the accounting period are apportioned and charged at the appropriate rates. A new system called 'self assessment' has been introduced. Setting out new rules for the making of tax returns assessment to corporate tax and the payment of corporate tax. Companies will be required to submit their accounts and tax returns and computations to the authorities within one year from end of their accounting periods. Tax must be paid within 3 months after end of accounting period for tax purpose. If the current amount due has not been determined an estimated amount must be paid. Financial penalties and interest charges are imposed if the deadlines are not met. When the liability has been agreed as an assessment is issued, and balance of any tax due must be paid.

2.8.3 Taxes Imposed

Except where non-resident companies are liable to income tax as explained above, companies are liable only to corporation tax on their profits, which is imposed at national level. There are on local taxes imposed on profit. Income tax is imposed on and realized from every person as: a person who has taxable income for the year, a foreign permanent establishment of a non-resident person in Nepal has repatriated income year as mentioned sub –section of 3&4 of sec-68 and a person, who receives a final withholding payment during , for each income year.

2.8.4 Tax Rate

Corporate tax is lived at the rate of 20%, 25%and30% for manufacturing, trading and banking and insurance business or companies including special industries. Corporation must be estimated income tax as an installment basis throughout the year usually base on the previous year's tax. These payment installment are 1/3,2/3 and 3/3 or full of tax liabilities in last poush, last chaitra and last Ashad respectively, of income year. Branches of foreign companies may also be taxed at this rate if there is a relevant treaty having a non-discrimination article. The same limitation applies. The rate of advance corporation tax is 15% of the dividend.

2.8.5 Profit Subject to Tax

General Rules

The tax charged to corporation income is calculated by adding together income from the various sources e.g. trading profit, investment income and capital gains. Deduction for certain categories of payment (e.g. interest, pollution, and control costs, research and development costs and repair and maintenance cost etc.) are made in total profit, and allowed when actual paid. These allowance criteria is 50% of total adjusted income or actual payment which ever is less for research and development, pollution and control 7% depreciable value or actual whichever is less for repair and maintenance etc are stated income tax act-2058 of Nepal. Others non-deductible items are also included in income (sec 21).

Stock /Inventory Valuation System

Stock and work –in progress is valued at the lower of cost (usually on a FIFO basis) or market value .LIFO or base cost (average cost method) is acceptable for tax purposes [sec. 15 (8)]. About it income tax act-2058 has allowed deducting the cost for maintaining stock. For the purpose finding out value of closing stock, cost price or market price whichever is less is allowed. For costing purpose, two methods are allowed by ITA-2058. In case of each accounting system, prime cost method should be adopted, whereas in case of accrual accounting system, the absorption cost method is permitted. If the cost of stock can not be derived FIFO in that time, or average cost method is allowed to use. In case of stock valuation, the organization can see the tax implication. For example, FIFO method of valuation is more costly than the following LIFO method and should pay more tax than the organization following average cost method.

Inventory valuation must conform to the accounting practice of the corporation's industry and it must clearly reflect income. The FIFO method may be used with the cost or market, whichever is lower basis. The LIFO method is also permitted but it may only be used with the cost basis. I n addition, if a corporation uses the LIFO method for tax purposes, then it must use the LIFO method for financial reporting. For all manufactures and certain wholesalers, certain period costs must be included in the valuation of inventory. This is known as the Uniform Capitalization rule (Ghahan, 1994).

Capital Gains and Losses

Capital gains are taxed special rate 10% which is the top corporate tax rate for ordinary income. The term "capital gain" includes almost all property except inventories or other asset which are holding for sale in the ordinary course of a trade or business, trade account receivable, depreciable business property and real property used in business.

Gain is measure by the excess in value of property or cash received over the adjusted basis of property surrendered. Capital loses are only deductible to the extent of capital gains. In Nepalese, ITA, capital gain only comes when general loss is already deducted. Items of depreciable real or personal property used in a business are not capital assets, but a special rule allows a portion of the gain from their disposal to be treated as capital gains. Net losses from the disposal of depreciable real or personal property will be treated as ordinary losses.

Dividend

If dividend is distributed by a resident entity's shareholders of a company are taxed in the form of a final withholding. However , a dividend distributed a resident company by another resident company shall be exempt from tax if the company receiving the dividend control 25% or more of the voting power in the company paying the dividend, either directly or indirectly through one more interposed entities. This condition will not apply to the company where dividend is distributed by virtue of its ownership redeemable shares in the company paying the dividend.

2.8.6 Deduction

General Rules

Corporation generally may deduct from gross income the ordinary and necessary expose of carrying on a trade or business that are paid or incurred during the tax year. Generally, if the cost expenses more than one year on capital assets, it has to be capitalized.

Taxable trading profits are calculated in accordance with generally accepted accounting principles with certain statutory adjustments the most common are;

- Only expenditure lay out wholly and exclusively for a business or corporation purpose is allowed (with exceptions for certain charitable gifts like donation.
- Capital expenditure can only be deducted by way statutory depreciation relief certain expenses incurred such as interest, research as development costs, pollution control costs ,repair and maintenance cost and depreciation allowance are not fully deductible in calculating trading profit on accruals basis which have various provision are enacted in ITA- 2058.
- General provisions and provisions for contingent or future losses are not usually deductible; this prohibition does not apply to provisions for bad debts, nor to stock valuation and some not deductible items domestic or personal nature, tax payable ,any kinds
- Specific provisions for future contingencies are only deductible in exceptional circumstance behave the current value of the contingency can be accurately estimated (e.g. for banking and insurance business).

In case of branches of non- resident companies, interest on any borrowing from head office is not usually allowed, unless it can be demonstrated that the interest arises in respect of third partly lending to the company.

Above stated things, corporations generally may deduct from gross income the ordinary and necessary expenses of carrying on a trade on business that are paid or incurred during the tax year. Generally, if the cost expenditure more than one year, it has to be capitalized as either depreciated or amortization.

Depreciation and Amortization

Depreciation is a major component of expenditure of a business organization. Since it has the importance in reducing the tax liability or getting real pricing of the goods and services or preventing the capital assets from being expended, every tax payer wants to manage this expenditure properly. Tax authorities also use to make special provisions relating to depreciation in tax laws. As previous tax acts and rules, ITA-2058 has also kept certain provision in appendix -2 the act and sec 19. The act has classified the assets, rate and pools in given as; depreciation method is first four pools are diminishing and lost cone is SLM.

Pool	Assets	Depreciation Rate
'A'	Building, structure and similar works of a permanent nature	5%
'B'	Computer , data handling equipment, fixtures, office furniture and office equipments	25%
'C'	Automobiles, buses and minibuses	20%
'D'	Construction and earth moving equipment and any depreciable assets	15%
'E'	Intangible assets other than depreciation assets included in class 'D' Dep. rate = $\frac{1}{\text{Useful Life}} \times 100\%$	

While category, all the tangible assets are classified under four heads a give above. In contrast to tangible assets, intangible assets of different nature are classified under particular head while keeping accounts.

Depreciation = Depreciation base × Depreciation rate

Depreciation Base = cost of assets + incoming assets – outgoing assets

Where incoming assets is treated as : if before the purchase last Poush 1/3, last Chaitra 2/3 and last Ashad full value of assets is adjusted in depreciable base amount other more or excess amount is transferred to capitalized for next year. If the depreciable amount is to be less than Rs 2000 whole amount is deducted as depreciation. These have a separate section which is related sec. The capitalized coat of intangible is used in a trade or business for the production of income is amortized of its life time. Disposal means reduce of assets for which various provisions.

Royalties

Royalties expenses are deductible as an ordinary and necessary expenses provided it is an arm's length transaction after considering sec 21, 63 and sec-9.Royalties under Nepal patents are deducted from total income when paid if those cost must be incurred respective business, income year etc.

Interest

Interest on loan received for the purpose of production of income or purchasing the fixed assets by the tax payer is deductible. however ,the amount of such interest is not exceed 50% of the tax payer's taxable income for the year while without including the interest received or without deducting any interest incurred by the tax payer in case of the persons controlled by tax exempt entity. Any interest not deducted in current year can be forwarded to next year. Note that tax exempt entity means resident entity which has ownership or control in one organization consisting 25% percent or more. Such organizations are.

- Tax exempt entity and person associated to that entity.
- Entity getting tax exemption or facility or person associated such entity.
- Non resident person or person associated with non resident person.
- Group of the persons as stated above

Bad and Doubtful Account / Debts

Bad debts are generally deductible but its provision and any types of reserve for it is not deductible while calculating taxable income (income tax act 2058 sec 25)

Reserve and Provisions

Generally, Nepalese tax law does not permit a deduction for establishment of a reserve.

Other Provisions

Others provision are enacted in this act which is treated as per nature of entities or corporations. Among them some are listed as :

- Special provisions relating to banking and insurance(sec 59 to 62)
- Taxation of non-residents providing shipping are transport or telecommunication service in Nepal.
- Special provisions for entities
- Distribution by entities.

2.8.7 Foreign Source Income /International Taxation

The provision of taxation that are kept in the tax law of each country dealing with the problem of rising business of multinational corporate bodies is taken an international tax law. In other words, it is the set of principles that are developed to solve the problems related to tax in international business are related to transfer pricing, double taxation, the right of taxing tax exemption, then capitalization (Kadel, 2002). Income tax act- 2058 has made some provisions in this regard. Within the area of international taxation, this act has defined income, losses, gains and payments.

This income is taxed if resident a person earns from the all over world and for non-resistant persons income is only taxed to extents its sources of income from all sources. Relief is given for foreign tax paid. But does not allow deducting if while computation of taxable companies is subject, when payable to corporate tax, but credit is given for foreign tax deducted from the dividend. Foreign company’s branch profit is taxed at 10% which is known through dividend paid by foreign permanent establishments. A Nepalese company is taxed on foreign branch income and may set of branch losses against trading income from other sources. Foreign tax paid on the branch profit is deductible from the Nepalese tax. the amount of the Nepalese tax on those profits. Foreign withholding taxes on foreign income may be reduced, refund or eliminated according to provision of tax treaties. Whether or not a relevant treaty exists. The Nepal gives relief for foreign taxes on income and gains to the extent that they do not exceed the equivalent Nepalese on income and gains.

In case of foreign losses, the related company can only be deducted its respective nation is profit. Otherwise it can not be deductible.

Besides above provision, other provisions are permanent establishment (sec -68),controlled foreign entities (sec -69), taxation of non- residents providing shipping, air transport or telecommunications services in Nepal (sec-70), foreign tax credits(sec-69) and international tax agreement (sec -73) which are detail described in income tax act 2058.

2.8.8 Controlled Foreign Companies (CFCs)

Here companies mean entities, in case of foreign controlled entity, it is treated as distribution of dividend to its beneficiaries at the time it has attributed income for the year. Dividend distributed in such way of a controlled foreign entity at the end of the year exempt for tax. A beneficiary is the paid the tax time treated as having paid the tax at time of allocation and credit may be available to the share holders for such tax. At the time of distribution, an amount treated as distributed to the beneficiary is included in the outgoings for an assets or liability being the recipient beneficiary's interest in the distribution entity. These things are expressed in sec 69 of income Tax Act, 2058.

2.8.9 Investment Incentives and Special Benefits

Certain incentives and tax credit are provided in Nepalese tax law. Some of them are as follows;

- Special corporation are used to defer or eliminate Nepalese tax with respect to Nepalese export sales.
- Industry that provides direct employment to six hundred or more Nepalese citizens during each day of the year shall be taxed at 90% of the rate.
- Industry operated in a remote ,undeveloped or under developed area shall be taxed at 70%,75% or 80% respectively of the rate otherwise applicable for the period of ten income years commencing from and including the year in which the operation commencing from and including the year which the operation commences. Remote area, underdeveloped areas, and underdeveloped areas have been shown in Annex-3 of the industrial enterprise Act,1992. According to the annex, they are as follows.

Remote Area	Undeveloped Area	Underdeveloped Area
Darchula , Bajhang, Bajura, Humla, Jumla, Mugu, Kalikot, Dolpa, Mustang, Manag, Solukhumbu, Sankhuwasabha, Khotang, Bhojpur, Accham,	Taplejung, Rolpa Baitaidi, Rasuwa, Gulmi, Parbat, Dadeldhura, Pyuthan, Doti,	Kailali , Surket, Palpa, Arghakhanchi, Syanjga, Dhading, Lamjung, Ilam, Gorkha, Tanahu, Udaypur, Dhankuta, Kanchanpur, Bardia, Dang,

Dailekh, Jajarkot, Rukum, Okhaldunga, Myagdi,Terathum And Ramechhap.	Salyan, Panchthar, Baglung and Sindhupalchok.	Nuwakot,Dolakha and Kabrepalanchok.

Note that if tax payer qualities claim two or more than two types of concessions, he can elect only one for that purpose among them.

- The repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal for a income –year is taxed at the rate of 10%.
- The taxable income of anon resident person with respect to income referred to shipping, air transport or telecommunications services as given in section 70 of the act for an income –year is taxed at the rate of 5%.
- Industrial enterprise which is engaged in an industrial activity related to an infrastructure project like ,road, bridge, roapway, of flying bridge constructed by the entity is taxed at the rate of 20% .accordingly, the taxable income of an entity wholly engaged in power generation, transmission, or distribution for an income –year is taxed at the rate of 20% special industry means an industry of type according to sec.3 of the industrial enterprises Act, 1992.

Other special provision are interest, pollution and control cost, research and development costs, depreciation allowance, donations etc and same withholding provisions are also enacted for individual purpose.

In addition, many districts and localities provide tax credits or grants if business locate and create jobs in specific areas which have a large number of unemployed people.

2.8.10 Related Party Transactions

Generally, related parities must deal with each other an arms length basis, otherwise income, dictation and credits may be reallocated to prevent evasion of taxes or to more clearly rafted income. No deceleration is allowed for losses from the sale or exchange of property between related parties. No deduction is allowed for an accrued expense by a country's taxpayer to its related foreign party until the expansion is paid. This rule only applies if the income to the foreign party is country's source, but Nepal has not provision about it little explanation in sec 56 as transaction between entity and beneficiary.

2.8.11 Losses

Company is operating to earn more profit as far as possible after taking risk of business. From this profit, its must be paid tax according to respective country's tax laws. Among the various tax law's provision, loss recovery system as also one. By which, a business feels easy to live or survival in related country. From where this country's socio- economic environment will be increase to give good governance of all concern. Among various loss recovery systems these laws have loss forward and backward system. That is why; a tax law or income tax act 2058 has following provisions about its or losses recovery.

- Loss from foreign source investment can be recovered from the gain of foreign source investment of the same country only.
- Loss from foreign source business can be recovered from foreign source gain an investment and business of the same country.
- Loss from investment, in Nepal can be recovered for gain and investment in Nepal and foreign country.
- Loss from business, in Nepal, can be recovered from gain an business and investment in Nepal foreign country.

- Loss related to non- taxable source of income can be recovered from income source related to non- taxable only.
- Loss from special industry and other business enjoying special tax rate can be recovered form the same business only.

Loss recovering periods as per the ITA, 2058 is 4 years for ordinary business and 7 years for infrastructure projects. This act has allowed carry backward also to financial banking and long term contract .The carry backward period is up to 5 year.

2.8.12 Corporate Groups

This act is not say clearly about corporate groups. But Annual report of IRD/N is classified corporate groups in three types; government, public and private. For tax calculation purpose also three types of companies, i.e. special, trading and manufacturing companies according to its work nature.

Above states kinds of companies, Income Tax Act, 2058 has different and various provisions are enacted in this act to operate better operation in Nepal on depending from Nepalese economics infrastructure.

2.8.13 Tax Free Merge and Disposal

If one assets or liability is disposed or merged dye to acceptance of any other assets or liability the following will happen.

- The disposer should take that an amount equal to the value of disposed assets or liability is received.
- The receiver should think that an amount equal to the value of disposed asset or liability is spent. This provision is in sec57 of income tax act2058.

Other provision for corporation liquidation of company is enacted by sec.55 treatment of branches of foreign companies are charged to corporation tax is the same way at the same rate as Nepalese companies. There is no branch profit tax and no additional tax payable when profits are distributed to the foreign company etc.

2.9 Tax Administration

2.9.1 Permanent Account Number

For the purpose of identification of tax payer, the tax administration use to give tax identification number to taxpayers in different countries of the world. This identification no. is of permanent nature and is called permanent account number (PAN). All the dealings related to taxpayers are made under this account number. In Nepal too, income tax act2058 has made such provision in sec 78 of the act. According to section 78 of the act, the department will order to state the permanent account number of the taxpayer in return file, statements and other documents. Nepalese government can specify condition where the tax payer should state his permanent account number. If the contents of permanent account number is changed the taxpayer should notified it to department within 15 days of the change and the department should change the contents accordingly (sec-24 income tax rules).

2.9.2 Advance Ruling

During the use of the act, there may be come a situation where the provision given in law become insufficient. In such case, taxpayers can ask for advance ruling in writing for a particular case or arrangement. If the taxpayer has applied to departments for getting such rulings, it may issue by notice in writing a personal ruling setting out the department's position regarding the application of this act. However the department's may not issue a ruling in respect to an issue involving the application of this act that is presently before a court or that has been decided by a court. If taxpayer makes a full and true disclosure to the department of all the respect or arrangement relevant to the ruling and the proceeds, in all material respects as described in the person's application for the ruling , the ruling is binding on the department. Accordingly, where there is any inconsistency between a public circular and a personal ruling, priority is given to the terms of the personal ruling, priority is given to the terms of the personal ruling, a person should apply to department is specified form. The department, in such case, should give decision with in 35 days of the application if the taxpayer could get decision, he can apply for administrative review in the department or appeal to revenue for decision.

2.9.3 Returns of Income and Assessments

It includes assessments of tax returns of income and not required extension of time to file return of income and types jeopardy amended and notice of assessment which are enacted in income tax act 2058. These explanations have as follows:

Assessment

It is the process of determining tax liability of the assesses. The term also includes an assessment of interest and penalty.

Return of Income

It is a document containing prescribed particular of income and prescribed information. It will be deemed to be completed when it is submitted in the prescribed from and is accompanied by necessary enclosures.

Self Assessment

It is the assessment done by the assesses himself at the time of submission or filing return of income. He is supposed to pay income tax according before filing the return.

Jeopardy Assessment

It is the assessment done by the department on its best judgment prior to the due data for filling a return of income of income in circumstance s specified in the Act.

Amended Assessment

It is the assessment done by the department on its best judgment to adjust the assessed persons liability to tax in such manner as is consistent with the intention of the act within a period of years etc.

Extension of Time to File Return of Income: A person who is required to file a return of income may make a written request to the department by the due date for filling the return (sec,98).

2.9.4 Refund of Tax

Excess of tax paid in advance over the tax liability has to be refunded to the assesses. Income tax act has dealt with refund and set of f of the tax. As per the provision of section -113 if a person has paid the tax in excess of the tax liability, the department will recover the tax payable by the person at first. After recovering that amount, if there is still the tax excess of the liability, the remaining amounts will be refunded to the taxpayer. The interest payable against the of tax, which is not payable, will also be returned. However, the IRD/N is obliged to refund the amount only if the tax payer has forwarded a written application within two years of the end of the income – year or the data on which the excess was paid. Where the department refunds the excess was paid. Were the by reason of court order or otherwise the department is liable to pay the person interest at the standard rate for the filling the return and refunding the amount in case of tax deposited with return field. Tax credits related to medical and foreign tax for an income year may not to be set off or refunded under this section. The tax payer should apply in department for refund of tax is specified form. He should also submit the documents related to excess payment of the tax (sec 36, the income Tax rulers, 2002).

2.9.5 Administrative Structure

Here, administration and management is taken as same meaning. Administration is the design of impletion of government policies or respective sector. Tax administration / management is regarded as including also some responsibility for determining the policies and program of governments related to tax. Specifically, it is the planning, organizing, directing, coordinating, and controlling of government organizations, related to taxation. Income tax act- 2058 has made a provision regarding the design of tax administration also. Tax administration includes, Director General, Deputy Director General, Chief Tax Administrators, Directors, Chief tax officers, Tax officers, Other Officers and other staffs.

Above stated officers and all other respective person's or institutions or divisions has various kinds of power rights duties, and responsibility which are also explained in their act in different section. These things are also involved in administration part of taxation. Rights of duties and responsibilities of tax payer also included its chapter which is enacted in ITA-2058.

2.9.6 Collection and Remission of Tax

- **Collection of Tax**

It is one important functions of tax administration ITA, 2058 has adopted following methods of collecting tax from the taxpayer.

Installation Method

On entity having assessable income during an income year from a business or investment is required to pay tax in three installments.

End to Poush 40%

End to Chaitra 70%

End of Ashad 100%

While paying such installment of tax, the tax payer should pay the remaining amount after deduction the amount of tax paid earlier.

Withholding Method

Withholding method is not appropriate for corporation but is used for individual.

- **Collection along with self – assessment**

Each person is required to file return within three months after end of each income year. While filling return, taxpayers are required to pay outstanding tax if, any.

- **Remission of Tax**

Government of Nepal may remit in whole or in part any tax that is payable by a person where the tax cannot be collected. The government may also remit in whole part any interest or penalty chargeable under the act (sec 112).

2.9.7 Administrative Revision and Appeal to Revenue Tribunal

Income tax act – 2058 has the provision of two alternatives to the tax payer who think the tax assessment of the tax officer unfair. The could either go to Revenue Tribunal or to the Director General of the income Tax Department. Income tax act, 2058 has not such provision. Instead, it has managed tax payers. First to go to Director General of IRD/N for review of decision and then if unsatisfied with the decision of DG, he /she can go to Revenue Tribunal. The enforcement of a decision on an objection is not stated or otherwise affected by an appeal. If Director General of the department has made the decision relating to administration review, the appeal to Revenue Tribunal would be effective.

2.10 Controlling Mechanism of Tax/penal Provisions

Provision made in the act to take action against those who do not comply with act is said to be penal provision according detailed penal provision, which are divided into two parts.

Interest and Penalty

The act has provided rights to tax officers to impose interest and penalty. The circumstances in which tax officers impose interest and penalty are enacted from sec 117 to 122.

Offences

Certain lapses for which the department may be launched prosecution proceeding against the assesses in a court of law. It is the amount that will penalize the assesses. Income tax act, 2058 has separated offences from penalty. The act has provided no rights to tax officers to impose an offence. So offences are imposed by the court. These offences are enacted from sec123 to131.

2.11 Corporate Tax Structure

This chapter deals with the corporate tax rate and tax base, Divide into two section reveals the present the rate structure of corporate income tax while the second reveals the present bade followed by Nepalese corporate sector.

2.11.1 Corporate Tax Rate Structure in Nepal

Tax rate is the base of measurement of tax liability. Tax should not be so high only for minimum revenue realization but should be activator for the private investment. Developing countries like Nepal needs to boost up their economic condition by developing industries and trade within the country. For this, corporate tax rate also plays a vita role. Imposition of tax on corporate profit was started with the enactment of business profit remuneration tax act,1960. The starting corporate tax rate was 25% and it was levied on progressive way. The tax amount was calculated on different slabs before FY 1985/86. The corporate tax rate structure was combined with individual tax rate structure. The reason was the numbers of companies were limited and private companies were generally managed by family. In the year,1985/86 the progressive tax rate structure was abolished in case of government enterprise used to split into different units to take advantages of lower rates. The progressive rate of taxing to private companies was abolished in the fiscal year 1995/96. Thus, flat rate system has been continued for all corporate bodies since the FY 1995/96.

The corporate tax rate structure was increased up to 60% the maximum rate in the FY 1995/96 from 25%. During1960/61 to 1975/76, increment of rates was made three times. After FY 1975/76, the tax rate again decreased up to 51% and 50%. This rate was again increased to 55% and remains continued from FY 1982/83 to till 1987/88. In the year, 1987/88, the listed public limited companies were levied 10% less than others. This concession was given to such companies by only 5% in the year 1985/86. After the FY 1987/88, the tax rate was continuously decreasing. Now, it is 20% to industry (except cigarette and alcohol) 25% to genera; companies and 30% to banks and finance companies. Special fee

3% of taxable incomes was levied was levied to all corporate bodies. The corporate tax rate structure of different years is presented as below:

Corporate Tax Rate Structure in Nepal

Fiscal year	Maximum marginal tax rate		Nature of tax rate
	Private co.	Public co.	Progressive
1965/66-1966/67	40	40	”
1967/68	55	55	”
1968/69-1974/75	55	55	”
1975/76	60	60	”
1976/77-1978/79	51	51	”
1979/80	50	50	”
1980/81-1981/82	50	50	”
1982/83	55	55	”
1983/84-1984/85	55	55	”
1985/86	55p	55f	progressive
1986/87-1987/88	55p	50f	”
1988/89-1989/90	50p	50f	”
19990/91-1991/92	40p	40f	”
1992/93-1994/95	35p	35f	”
1995/96	33	33	”
1996/97	30	33	”
1997/98-2004/05	20,25&30	20,25&30	”

Sources:

1. *Kandel, (2006). Corporate Tax System & Investment Behaviour in Nepal*

2. *Finance Act*

Note: 20% tax rate for special industries

25% tax rate for general industries producing cigarette, bidi, etc.

30% tax rate for non- industries for banking and insurance business.

2.11.2 Corporate Tax Base in Nepal

Under the income tax act, 2058 of Nepal corporate tax is levied on the total taxable income of the previous year. It has assumed the global or total as well as scheduler income tax. This act has divided the source of income into three major heads they are: income form business, income from investment and income from remuneration. The third amendment of Income tax act, 2058 has further clarified about calculating the adjusted taxable income and net taxable from business, investment and remuneration. All the taxable income are added as per law and deduction allowable expenses such as general deduction, cost of trading stock, interest expenses repair and maintenance expenses, depreciation. Reserve and risk- bearing fund and expenses, related with business and investment were deducted as per the law, which occurs adjusted taxable income. Then, in case of business income, pollution control should be deducted taking the adjusted taxable income as base, after that we get assessable income from business before loss adjustment. Then, loss from business in current year and previous year are deducted to get the net assessable income from business. Likewise, loss in business and investment of current year and business loss of previous year are deducted to get the net assessable income from investment.

Total assessable income is calculated by adding the net income from business and investment from where common expenses and donation expenses can be deducted as per the law to get total taxable income. No exemption limit is provided to the companies. Special additional fee 15% of taxable income is charged to the second slab where 25% tax rate is charged.

In Nepal, taxable income of a company is computed in the following manner:

Specimen format for computation of Business income computation of

Taxable income of……..co. for the assessment year……….

S.N.	Particulars	Amt. (Rs)	Amt. (Rs)
a	Service charges (7.2)		
b	Sales or disposal of business stock(7.2)		
c	Net profit or gain from the disposal of business or liability (7.2)		
d	Amount received from the disposal of depreciable assets (7.2)		
e	Prize or gifts received in connection with business (7.2)		
f	Amount received in lieu of acceptance of restrictions regarding business (7.2)		
g	Amount received from any investment directly related to business (7.2)		
h	Income included under the provision of accounting methods (24.3)		
i	Excess amount received due to exchange rate variation (24.4)		
k	Bad debts recovered (25.1)		
l	Proportionate amount received under long term contract (26.1)		
m	Underpayment of interest due to market rate variation (27.1)		
n	Receivable amounts paid to others (29)		
o	Amount received for compensation (31)		
p	Other amount received under the head of business income		

A. Total	Gross (Assessable) income from Business		
	Less Allowable deductions :		
a	General deduction (13)		
b	Interest expenses (14)		
c	Cost of business stock (15)		
d	Repair and maintenance expenses (16)		
e	Depreciation expenses (19)		
f	Reserve fund for banks and insurance business (59)		
g	Other expenses as per income tax act,2058		
B	Deductible Business Expenses		
	Adjusted assessable income from business (A-B)		
	Less :		
h	Pollution control expenses 50% of adjusted assessable income or Actual paid (whichever is less)		
i	Research and development expenses 50% of adjusted assessable income or Actual paid amount (whichever is less)		
C	Net (assessable) income from business before carry forward of previous loss a donation		
	Less : carry forward of losses		
a	Loss from other business in current year		
b	Previous years cumulative losses		
	Net (assessable) income from business		++++

Format for Computation of Investment Income

Computation of taxable income of…… for the assessment year ….

S.N	Particulars	Amt (Rs)	Amt. (Rs)
a	Dividend gross (9.2)	+++	
b	Gain from insurance investment (9.2)	+++	
c	Interest received (9.2)	+++	
d	Rent received (gross) (9.2)	+++	
e	Payment received (gross) (9.2)	+++	
f	Royalty (gross) 9.2	+++	
g	Gifts received in respect of investment(9.2)	+++	
h	Amount received from disposal of depreciable assets (9.2)	+++	
i	Amount received as consideration for accepting a restriction on investment(9.2)	+++	
j	Income to be include due to be change in accounting method(22.6)	+++	
k	Excess amount received due to exchange rate variation (24.4)	+++	
l	Bad debts recovered related with investment(25.1)	+++	
m	Underpayment of interest in comparison to market rate (27.1	+++	
n	Receivable amount paid to others (29)	+++	
o	Income received from joint investment (30)	+++	
p	Amount received from compensation(31)	+++	
q	Other amounts to be included under investment income	+++	

A	Gross assessable income from investment Less : deductible expenses		++++
a	Interest expenses(14)	+++	
b	Repair and improvement expenses (16)	+++	
c	Expenses related with investment	+++	
B	Total deductible expenses		+++
	Assessable income before carry forward of loss(A-B)		+++
	Less :Carry forward of losses a. Loss in business(current year) b. Loss in investment (current year) c. Carry forward of loss from previous year business Net (assessable) income from investment	+++ +++ +++	++++

Statement of Total Taxable Income

	Net (assessable) income from business		+++
	Net (assessable) income from investment		+++
	Total net (assessable) income shown by assesses		+++
	Less: common expenses		
	Donation	+++	
	5%of net assessable income Or actual paid Or maximum limit Rs.100000		+++

	(whichever is less)		
	Computation of tax liability		
	Total tax liability = taxable income × rate Less : Advanced tax paid Tax amount to be paid Add : special fee (1.5% of Rs. Balance amount)		+++ +++ +++ +++
	Total amount payable		+++

2.12 Review of Related Materials

2.12.1 Review of Books

Khadka (1994), had been conducted a study in title' Nepalese Taxation path for Reform' in 1994. He had mentioned, mostly, detail Nepalese whole taxation system. In where he had been observed the following points;

- Origin of the idea of introducing an income tax and its introduction.
- Adoption of quasi- global or a limited scheduler system.
- Segregation of corporation income tax from individual income tax and its increasing dependence on the presumptive basis.
- Basic allowance and progressive rate structure.
- Move from joint taxation to individual taxation and shift from itemized to flat system
- Experiment with an advance tax impacts and the existing structure.
- Individuals and corporate income tax, house rent and interest taxes and business and professional tax.

From where, he recommended to reform the Nepalese taxation Department in different points. These are:

- Needs and possibilities for tax system.
- Formulation of comprehensive tax reform program.
- Rationalization of structure and operation of taxes.
- Strengthening tax administration and improving tax compliance.

For this topics, his study has one important chapter is available there which belongs to chapter -6 improving tax administration. He included there; the middlemen system, installment of direct collection system, existing administrative cost of tax collection and problem, Inadequate organization pattern, predominate of low level non – technical parts and physical and other facilities, debatable scope of the revenue investigation department, lack of adequate information system and lack of a tax department are strengthening the revenue service ,provision of extensive tax training, reorganization and expansion, developing an integrated information system and tax policy and tax policy and research. But he had not been any description and recommendation of corporate income tax system. He only detail analyze in 'Nepalese taxation ; path at reform.

Sharpe and Sligar (1970), Published a book in title 'Public Finance; An Introduction to the study of the public economy'. In where they wrote, as a separate part and chapter, corporate income tax (ch, 17, part III). Where they described the base, computation and payment of the corporate income tax, two approaches of its ,incidence, economic effects, state corporate income taxation. From that, following things are drawn for corporate income tax.

The corporate income tax is a bountiful source of revenues at all level of government. Corporate income for tax purpose is the total income of the corporation minus ordinary and necessary business expenses, bad debts, business connected taxes, charitable contribution (maximum deduction of 5% of net income) losses from fire and theft, verifiable and legitimate depletion, depreciation and obsolesce allowances, advertising expenditures and payments to employee pension funds, corporate net operating losses may be carried back and back for allowed period of nation respective rules and regulations. The tax is in on the capital gains deduction. Tax rate is net income after the capital gains deduction. Tax rate also involve it and other related things were described in those chapter but they were not expressed above tax system and corporate income tax system. Rather they tries to want about corporate tax system by mentioning policies, rules and regulation about its.

Mclure (1977), JR prepared 'A report of a conference sponsored by the fund of Public Policy Research and the Brookings Institution' from Washington D.C. in title 'Must corporate income be taxed twice' and expressed about its rules, regulations, policies and management a little on the aspect of his topics.

Prof. Jerry M. Rosenberg published a 'Business Dictionary series' in where he gave the meaning of corporate income tax as a tax imposed on the net earnings of corporation but he did not write about its system.

Grahan (1994), edited books named 'Naxia International' in where he collected corporate taxes was and personal taxes of various developing and developed country which were forty six to know the tax status or respective country. He arranged all country alphabetical order.

About this researcher concern, corporate taxes only consider to review. So, Grahan included these points in this ways.

- Taxable entities
- Resident companies

Non- resident companies

- Tax year and filling requirements
- Tax imposed: Tax base
- Tax Rate
- Income subject to tax
  - General rules about income
  - Stock/ inventory valuation
  - Capital gain and losses
  - Dividends
  - Deduction
  - General rules about expenses
  - Depreciation and amortization
  - Royalties
  - Interest
  - Dividend
  - Bad and doubtful debts
  - Employee's and director's remuneration and benefits

- Reserve and provisions

Especially non-deductible expenses are;

- Foreign source income
- Losses
- Corporate groups
- Tax free mergers and disposals
- Liquidation of company
- Capital taxes

From above point, this researcher confidently, may be saying about corporate income tax system is that global concept about corporate income sector taxation all rules, regulations, laws, policies etc.

This corporate income tax is global system of act (s) where tax administration also involved. In these handbooks, above items and other additional item are involved, these rules and regulations are concerned country and related persons.

2.12.2 Review of Newspaper, Journal

United Nations published a journal on public finance entitles "Guidelines for improving tax administrative in developing countries "in 1977. This study is divided into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory commentary. Function of tax administrate are taxpayer registration and identification, assessment, collection audit and supporting function are personal management, taxpayer education, information and assistance. These two types of function and detail explained in that study. From that some essential things were recommended for developing countries.

United nation published a policy research which was prepared by Jeffrey Bernstein and Anwar Shah in title ‘corporate Tax Structure and production’ in 1993. They studied there investment tax credits ,investment allowances, and accelerated capital consumption allowances, are more cost effective in promoting investment than more general tax incentives such as corporate tax rate deductions. From this research they reached at summary and conclusion as on the elasticity of rental rate of capital which respect tax instrument’s, on the tax sensivity of capital stock and on the benefit- cost ratio. To imperial study, they took Mexico and Pakistan as a sampling.

United nation published working papers in title Tax reform in Malawi after submitting Zarak Shalizi and Wayne Thrisk (1990).Out of his five chapter 3, he expressed about tax administration. In where, he looked various part of tax laws and found then recommended that a document control system be introduced and that data should be organized in such away as to allow for the identification of trends and patterns in far example, receipts, arrears and the settlement of delinquencies. This would increase the ease and spend with which management would increase speed with which management would be able to analyze changing conditions and to react to them appropriately.

IRD/N was published an ‘Annual Report’ for fiscal year and Nepal Rastra Bank edited a ‘Quarterly economic Bulletin’ in where available details data and information. All data are expressed in numerical digits with detail of taxation structural composition.

2.12.3 Review of Thesis/ Dissertation

Poudyel (1998), had been conducted a research on the topics of corporate tax planning in Nepal with the showing the proportion of corporate tax revenue separated direct tax revenue in total tax revenue where mentioning the objectives are to examine tax structure in Nepal. To examine the implications of tax factor in selecting to best alternative strategy in different aspects of strategic planning and so on. This study is also expressed that corporate tax is raised under different acts provision in different time. Corporate tax depends upon business transaction corporate tax planning in Nepal research topics of K.B. Poudyal had been found about corporate tax structure into two points tax base and tax rate under previous income tax rule only.

Initially, corporate tax was combining with the individual's income tax and the same rate structure was fixed for both taxes for many years. Such a system would be understandable. Today individual and corporate (both) are based on income tax act 2058 in Nepal Inland Revenue department o f Nepal Government has different tax office which classified corporate income and individuals income tax according to nature of law's provision. Corporate income tax has also sub-unit classified on the ownership. These are government, public and private which is found the review of historical background of Nepalese tax system. Various rules, regulation and provisions are expressed in Nepalese income tax which is progressive nature.

From the side of corporate income tax's contribution in the national revenue of Nepal, Shahu (1955) had conducted a research on the topics "Contribution of Income tax in National Revenue of Nepal" .Share of income tax in national revenue, difference in estimation and collection of income tax in Nepal, structure of income tax, trend of income tax ,tax burden, number of tax payer and tax composition etc were highlighted as a problem and to find out the solution of these problem he set the objectives were history of income tax, number of tax payer and their composition contribution portion of income tax in total national revenue and trend etc. for that his research methodology was historical descriptive research design, secondary data were only used, ten year data were used, data collection procedure was consulting the required governmental and non-government offices, simple arithmetic rule and chart, diagram were use to the propose for presentation of data. Necessary statistical tools and number and percentage were applied to analyze the research.

Kadel (2000), also conducted a research on topic "Corporate Tax System and Investment Behavior in Nepal" on dated March 2000 as decorated thesis of department of commerce under Delhi university of India. That research's problem was what rules, regulation and provisions were applied their in different Nepalese corporate income tax only first part to know that problems solutions he set the objectives were to evaluate contemporary corporate tax system, specially the provisions relating to tax burden on corporate investor in Nepal, to evaluate the sensitivity of certain policy issues like capital gain tax, inflation, dividend tax, interest tax, etc on the basis of their impact on corporate tax burden etc. to know the research result he had prepared a research methodology those were; data were collected from opinion survey on the basis of different factor, effective tax rate calculation regression analysis and opinion survey were used for analysis of his research. From that, he had found different and reached corporate tax burden whether positive or negative according to current tax related laws on managerial investment of tax paying corporate body on Nepal was not much higher or lower under all financing option debt mix and equity were as conclusion.

Oli (2006), had been conducted a research in title contribution of income tax in government revenue of Nepal. His thesis was prepared as the requirement of partial fulfillment of master's degree under management faculty of Shanker Dev Campus. From this thesis, he identified what contribution portion was covered by income tax in government revenue as a research problem. To get are research's answers question the impact of income tax evasion an government revenue of Nepal and give appropriate suggestion to prove the tax system so that the government can collect more revenue and use it in the way of economic development of the country. To conduct the study, he a doubted the historical research design, primary and secondary data used to get those data a questionnaire was developed and necessary tools and chart was applied for that research. From that research ,he reached in conclusion and say what is contribution portion of tax and non tax revenue in Nepal and its importance as well as what is the main factor in evasion of tax which was been lack of consciousness of tax and low tax paying habits etc.

Shrestha (2008), had been conducted a research in title contribution of income tax in government revenue of Nepal. His thesis was prepared as the requirement of partial fulfillment of master's degree under management faculty of management T.U., in his thesis he has analyzed the contribution % of income tax to national revenue and GDP. And got the conclusion that the contribution % of income tax to national revenue and GDP is very low. And recommended that, to increase the contribution tax policy and tax administration should me corrected.

2.13 Research Gap

All the research studies mentioned above are concerned with study of laws, provisions administrative aspects and structure of tax. The role of revenue is crucial for the overall development of the country. Therefore, inspire many times the research have been conducted on this topics once again. The researcher choose the same "Corporate income tax system and its contribution in national revenue of Nepal". Since, more than 80 percent of the total revenue in collected from the tax source, efficient tax system has to be developed and strengthened. In recent year, Nepalese corporate sector is small and stagnant in nature and performance of public sector, private even government sector is poor. The government has taken several measures to reduce tax induced distortions, strengthening tax administration, simplifying tax laws and procedures to make them more transparent. So since the government main concentration is always to increase revenue, its very important for us to talk about revenue and the pros and cons of activities taken by the government as we all are directly or indirectly participated in this subject matter.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is concern to a detailed discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. There are six parts as research design, population sampling, sources of data and information, procedure of data collection.

3.1 Research Design

The research topic entitled 'Corporate income tax system and its contribution in national revenue of Nepal's based on various rules, regulation and acts which are always setting on different country's own socio-economic infrastructure. So, descriptive research design is more suitable to understand Nepalese corporate income tax system for first part of this study. For contribution part, study need to require it's past performance in different time period with respective indicators. As historical as well as descriptive research design is used.

3.2 Population and Sampling

All amounts quantity and units or universe or whole things of topic are said to be population. So this concept of population, whole corporate income tax and corporate tax laws, rules, regulation, of Nepal is its population for first part. For contribution parts, recorded data of about corporate taxation are also at population. Corporate income tax is taken as size. The population for primary belonging to income tax of Nepal. 60- sample size is selected from three different groups of respondents.

The following table shows the group of respondents and sample size.

S.N	Group of Respondents	Sample Size
1.	Tax administrator	20
2.	Tax expert	20
3	Tax payer	20
Total		60

3.3 Sources of Data

According to nature of study, the study requires primary as well as secondary data.

Primary data and information have been collected through administrating was distributed to all respondents. Tax administrators are selected from tax department and various sector of tax officers. Tax experts are the chartered Accountant, auditors, high post official etc. tax payers are selected representing various sector i.e. manufacturing company, trading company, industries, private banks, finance company, travel & tours, school, consultancy firm etc.

Secondary data were annual report of IRD/N like Annual report of IRD/N income tax act, 2058, IRD/N's& NRB's timely bulletin etc.

3.4 Data and information Collection Procedure

About corporate income tax information are based on corresponding tax laws. So ,firstly detail analysis is conducted to address this study's problem and corresponding objectives then studied tax laws, rules, regulations, and policies according to its study's requirements .secondly ,after not finding or getting and confusing these things ,then, go to consult related fields like, IRD/N,NRB, FOM, security board of Nepal, CBS, library of different places, related persons etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

3.5 Presentation and Analytical tools

Various tools are applied while conducting this study which is table, percentage, correlation, time series analysis.

Table

Table is a tool which presents to given data according to its nature. From where, everybody gets data and information easily and clearly as requirement.

Percentage

If all amount or parts convened into 100is called percentage which is very important of every human life .if we use its , we will be successful to reach our goals more simply then other. Percentage is computation as follows.

Percentage = $\frac{\text{One Part of Whole}}{\text{Whole Part}} \times 100\%$

Chart Line & Trend Line

Chart means a drawing figure which also represents data in linear form. Charts are various like, pie chart, histogram, trend line etc but these tools are used for this purpose.

Correlation

Correlation may be defined as the degree of linear relationship between two are more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation analysis is defines as the statistical technique which measure the variables which lie between $\pm$ 1.if the value of correlation (r) is nearer to +1, this relationship is said to be perfectly positively correlated and vice- versa.

We can compute the correlation simply by using direct method.

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where , N = no. of observation

X= variable

Y = variable

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Government of any country of the world needs adequate budget for the development activities, operation of administration, maintaining peace and security and other public welfare activities. The required budget is collected from various sources. Generally, the revenue collected by the government from various sources is known as public revenue or public receipt or national revenue or national exchequer.

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect is the composition of customs, excise, sales tax/VAT and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities in the form of fees, fines and penalties etc. The government revenue is therefore, the combination of tax revenue and non-tax revenue consisting various sources.

Mostly, incomes of the government are custom duty, excise duty and sale tax or VAT of indirect tax group. Custom duties consist of export, import, Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial production. The other indirect taxes, which are also important in government revenue, are contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals' and organizations income or profit. Income tax is the composition of income or profit of public enterprises semi-public enterprises, private corporate bodies, individual and remuneration. The house and land registration is also the part of direct tax.

4.2 Nepalese Corporate Income Tax System

Description principles, provisions and theory of taxation are based on general accounting principle and income tax Act, 2058 of Nepal. In this section, the corporate income tax provision under income tax Act, 2058 have been described in detail according to this research problem and purpose. This chapter broadly classified into Tax Laws. Tax administration, and tax controlling mechanism/ penal provisions.

4.3 Contribution of Corporate Income Tax

Contribution of corporate income tax on total revenue, tax revenue, direct tax revenue, income tax revenue, its composition and its trend line for 5 years has been drawn in this sub chapter. The relationship of CITR with other taxes and total revenue and its coverage portion has been examined.

4.3.1 Contribution of Corporate Income Tax in National Revenue

Corporate income tax plays an important role in Nepalese government revenue. The composition of national revenue/ government revenue has been shown in table. The following table has been drawn to show the contribution portion of CITR in different time periods in percentage and amounts also.

Table 4.1

Contribution of CITR in National Revenue

(Rs in million)

Fiscal Year	National Revenue		Corporate Income Tax							
			Govt. Sector		Public Sector		Private Sector		Total CITR	
	Amt.	%	Amt	%	Amt	%	Amt	%	Amt	%
2060/61	62331.1	100	2056.63	3.29	1531.27	2.45	3533.40	5.66	7121.3	11.42
2061/62	70026.9	100	1332.4	1.90	2467.82	3.52	3926.3	5.60	7726.52	11.03
2062/63	71733.1	100	195.73	0.27	3404.33	4.74	4234.62	5.90	7834.68	10.92
2063/64	87711.2	100	1019.71	1.16	5717.11	6.51	5234.45	5.96	11971.27	13.64
2064/65	107622.5	100	204.63	0.19	7186.50	6.67	6381.23	5.92	13772.36	12.79

Sources: Annual Report of IRD/N

The contribution percentage of corporate income tax to total revenue during the study period was fluctuating from 13.64% to 10.92%. The share of corporate income tax revenue was 11.42% amounting Rs. 7121.3 million in the FY 2060/061 in which 3.29% of total revenue was covered only by government sector. Share of CITR to total revenue was decreased to 11.03% in the FY 2061/062 which 1.90% of total revenue was covered only by government sector. In fiscal year 2062/063 CITR again decreased up to 10.92%, on which 0.27% was covered by government sector. Again in fiscal year 2064/065 CITR to total revenue was 12.79% on which government contribution was 0.19%. we can conclude that CITR to total revenue is in fluctuating trend.

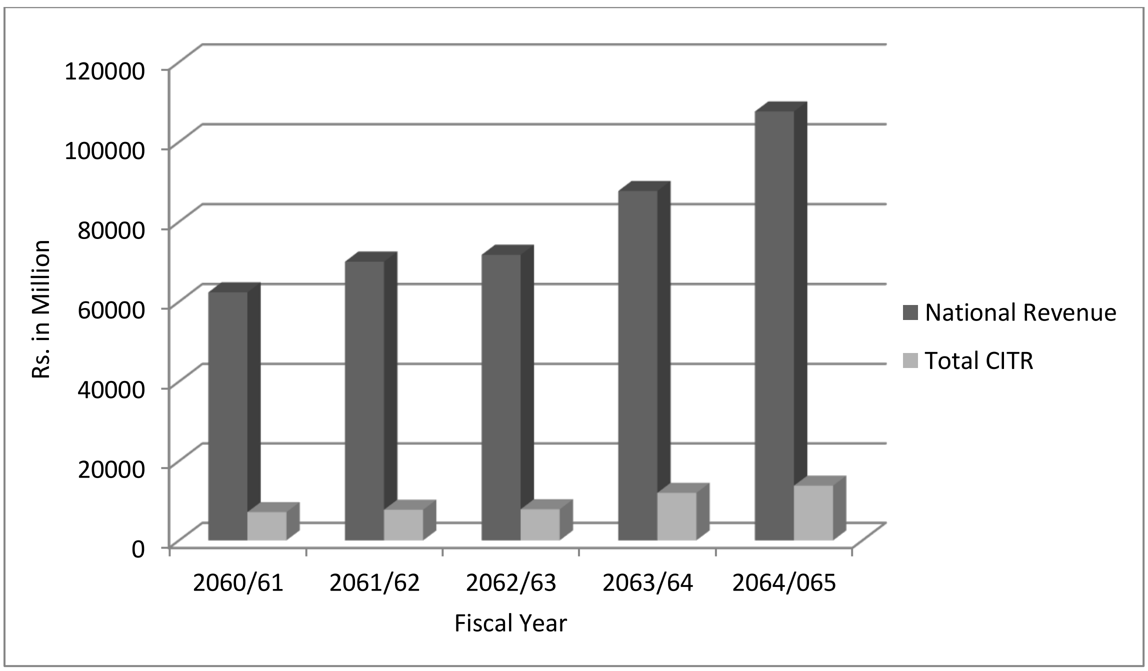
National revenue/total revenue was also in increasing trend which was not only the cause of better implementation of fiscal policy and positive macro-economic indicator but it was also due to expansion of taxation and net. This table also shows that the private sector's tax collection was in increasing trend. Private sector's tax collection percent to total revenue was only around 5% since last 5 years. Although Nepal has liberalized the economy and privatized about 24 public enterprises and companies during the last decade. Likewise, tax collection from public enterprises seemed to be increasing up to 2064/65 which contribution portion was 6.67%.

Nevertheless, Nepalese corporate sector is contributing to total revenue about 14.24% which seems to be very small portion comparing to other developing countries.

The contribution pattern of corporate income tax to total revenue has been shown in the following bar diagram and trend line.

Figure 4.1

CITR and National Revenue



In this bar diagram, total revenue, corporate income tax revenue seems to be very low. The intra- structural composition of corporate tax seems to be slightly changed. It is also known that the contribution private and public sector has increased comparing to beginning year of the study.

The correlation between national revenue and CITR from FY 2060/61 to 2064/65 was 0.976, which indicates the positive relationship between them. Out of the tax contribution, CITR's explains 68% of national /total revenue and remaining other 32% was covered by other tax revenue. (Appendix-1)

4.3.3.1 Contribution of Corporate Income Tax in Total Tax Revenue

Total tax revenue is composed of direct tax and indirect tax which has been shown in the master table Appendix. Total tax revenue is mostly affected by CITR and its enhancement by the country. The following table has drawn to know the Nepalese CITR's contribution portion to total tax revenue:

Table 4.2

Contribution of CITR in Total Tax Revenue

Fiscal Year	Total Tax Revenue		Corporate Income Tax							
			Govt. Sector		Public Sector		Private Sector		Total CITR	
	Amt.	%	Amt	%	Amt.	%	Amt	%	Amt.	%
2060/61	48173.27	100	2056.63	4.26	1531.27	3.17	3533.40	7.33	7121.30	14.78
2061/62	54053.48	100	1332.4	2.46	2467.82	4.56	3926.3	7.26	7726.52	14.29
2062/63	40202.33	100	195.73	0.48	3404.33	8.46	4234.62	10.53	7834.68	19.48
2063/64	71126.72	100	1019.71	1.43	5717.11	8.03	5234.45	7.35	11971.27	16.83
2064/65	85155.52	100	204.63	0.24	7186.50	8.43	6381.23	7.49	13772.36	16.17

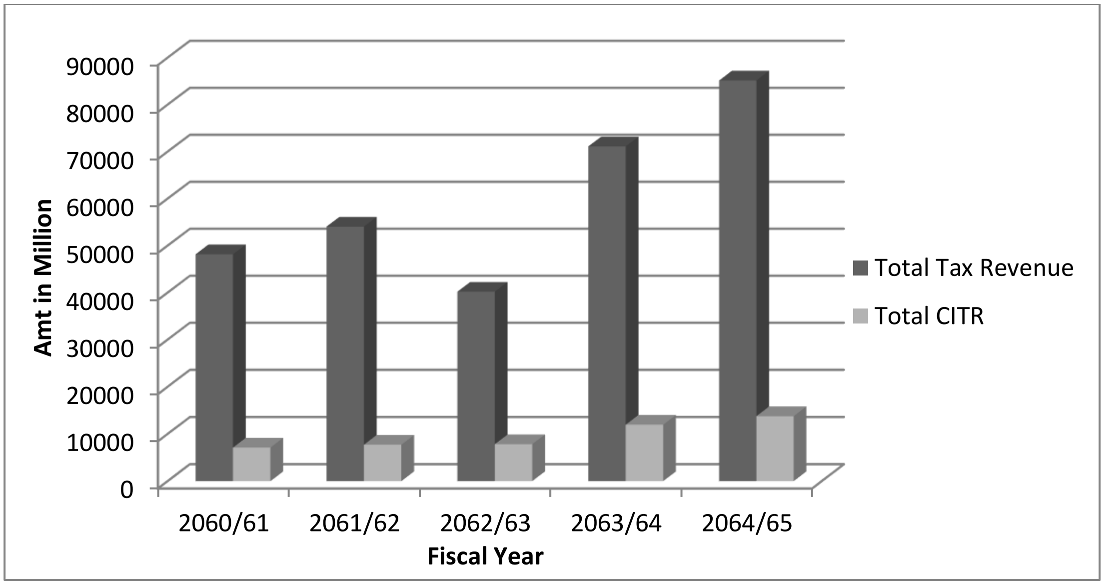
Sources: Annual Report of IRD/N

The table shows that the CITR's contribution to total tax revenue was fluctuated during the study period. It was 14.78% in the FY 2060/061, which was gradually decreased and reached to 14.29% of minimum contribution in the FY 2061/62. But this contribution was increased within one year and reached to 19.48% in the year 2062/63, CITR'S contribution was 16.83% in the FY 2063/64. Such kind of lower contribution was due to the lower collection of corporate income tax which might be the result of political instability, unfriendly environment for operating industry, trade and business. Moreover, CITR has been contributed the small but important portion contributing to total tax.

The structural composition of corporate income tax seemed to be changed during the study period. In FY 2060/061 about half portion of CITR was covered only by private sector and rest of the half was covered equally by government and public sector. Within 5 years in the 2062/63 the tax contribution from public sector was improved and reached to 8.46% but the private sector had gradual decrease since 2060/61 and reached to 7.26% in the FY 2061/062. Again, it increases in FY 2062/63. The tax contribution percentage from private sector seems to be natural during the study period around 6% only. The tax contribution to total tax revenue from government sector was the most fluctuated one. It was 4.26% in FY 2060/061 which was gradually decreased to 0.24% in FY 2064/065. That sort of fluctuation is not good for the Nepalese economy. The lower contribution of private sector since last 5 year was due to the poor performance of private sector. The contribution of CITR to total tax revenue has been shown in bar diagram and trend line as below:

Figure 4.2

Corporate Income Tax and Tax Revenue



In the above bar diagram various years are shown in x- axis and Total tax revenue is shown in y- axis.

The above trend line shows the increasing trend of tax revenue and CITR including the data. The total tax revenue seems to be increasing forever during the study period but CITR Maximum at 2062/63 and minimum at 2061/62. The trend line of government sector seems to be most fluctuated among all.

The correlation between CITR and total tax revenue for 5 years from FY 2060/61 to 2064/65 was 0.95, which indicates the positive relation between them. The value of correlation coefficient was explained 67.3%by CITR and remaining 32.7% by other taxes (Appendix-2).

4.3.3.2 Contribution of Corporate Income Tax Revenue in Direct Tax Revenue

Direct tax composed of income and non- income tax revenue. From the following data represents the historical and position of direct tax revenue CITR and contribution of CITR in tax revenue.

Table 4.3

Corporate Income Tax and Direct Tax Revenue

Fiscal Year	Direct Tax Revenue		Corporate Income Tax Revenue							
			Govt. Sector		Public Sector		Private Sector		Total CITR	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
2060/61	11212.7	100	2056.63	18.34	1531.27	13.65	3533.40	31.51	7121.30	63.51
2061/62	12251.80	100	1332.4	10.87	2467.82	20.14	3926.3	32.04	7726.52	63.06
2062/63	10896.40	100	195.73	1.79	3404.33	31.24	4234.62	38.86	7834.68	71.90
2063/64	18980.29	100	1019.71	5.37	5717.11	30.12	5234.45	27.57	11971.27	63.07
2064/65	23087.76	100	204.63	0.88	7186.50	31.12	6381.23	27.63	13772.36	59.65

Source: Annual Report of IRD/N

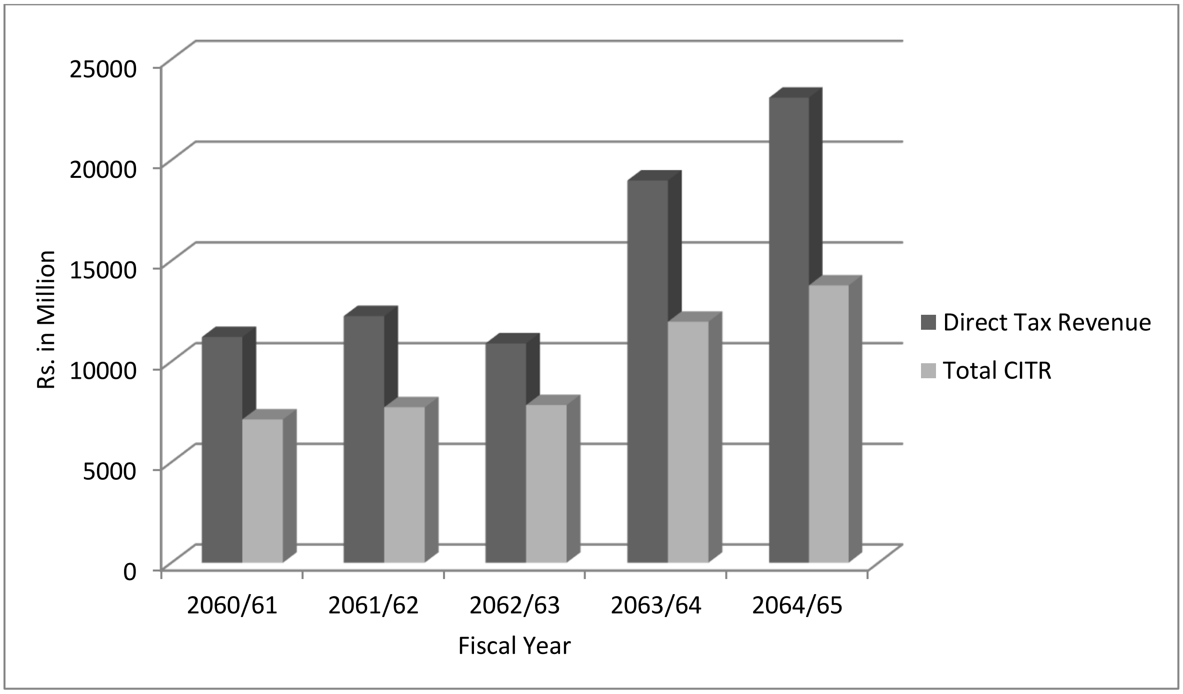
From the above table, we can see that the contribution of CITR to direct tax revenue was fluctuated between 59.65% to 71.90% during the analysis period. Its contribution % was 63.51% amounting Rs. 7121.30 million in FY 2060/60, which increased to 63.06% amounting Rs. 7726.52 million in FY 2061/62. Again it increased to 71.90% amounting Rs.7834.68 million in FY 2062/63. Then after, its contribution decreased drastically to the apex of 63.07% amounting Rs. 11971.27 million in 2063/64. It was possible due to the business friendly environment and seizes fire the country. Unfortunately that situation did not long last. The CITR's contribution to direct tax revenue was sharply decreased within 1 year to 59.65% amounting Rs. 13772 million in 2064/65.

This table has also shown the composition of corporate income tax seemed to be changed during the study period. In FY 2060/061 about half portion of CITR was covered only by private sector and rest of the half was covered equally by government and public sector. Within 5 years in the 2062/63 the tax contribution from public sector was improved and reached to 8.46% but the private sector had gradual decrease since 2060/61 and reached to 7.26% in the FY 2061/062. Again, it increases in FY 2062/63. The tax contribution percentage from private sector seems to be natural during the study period around 6% only. The tax contribution to total tax revenue from government sector was the most fluctuated one. It was 4.26% in FY 2060/061 which was gradually decreased to 0.24% in FY 2064/065. Still government covers the maximum portion but public and private sector have also improved their position.

The contribution of CITR to direct tax revenue can be shown in bar diagram and trend line as follow.

Figure 4.3

CITR and Direct Tax Revenue



In the above bar graph x- axis shows the different FY from 2060/061 to 2064/65 and y- axis shows the direct tax revenue.

The correlation between direct tax revenue and CITR was 0.91 which is known as positively correlated taking the data of 2060/61 to 2064/65. The value of correlation coefficient was only explained 84% by CITR in direct tax revenue and other 16% was by the other indirect tax revenue (Appendix-3).

4.3.3.3 Contribution of CITR in Income Tax Revenue

Income tax revenue is composed by individual and corporate income tax. Corporation can be improved its revenue in sound economic environment. The size of income of tax revenue largely depends up on the size of corporate sector. Higher the size of corporate sector, higher will be the CITR and total income tax revenue and vice versa. So, CITR in Nepal has played a vital role in Income tax revenue which has been presented in the following table

Table 4.4

Corporate Income Tax Revenue in Income Tax Revenue

Fiscal Year	Income tax revenue		Corporate Income Tax							
			Govt. Sector		Public Sector		Private Sector		Total CITR	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
2060/61	10215.12	100	2056.63	20.13	1531.27	14.99	3533.40	34.58	7121.30	69.71
2061/62	11272.64	100	1332.4	11.81	2467.82	21.89	3926.3	34.83	7726.52	68.54
2062/63	11787.03	100	195.73	1.66	3404.33	28.88	4234.62	35.92	7834.68	66.46
2063/64	16726.89	100	1019.71	6.09	5717.11	34.17	5234.45	31.29	11971.27	71.56
2064/65	20147.01	100	204.63	1.01	7186.50	35.67	6381.23	31.67	13772.36	68.35

Source: Annual Report of IRD/N

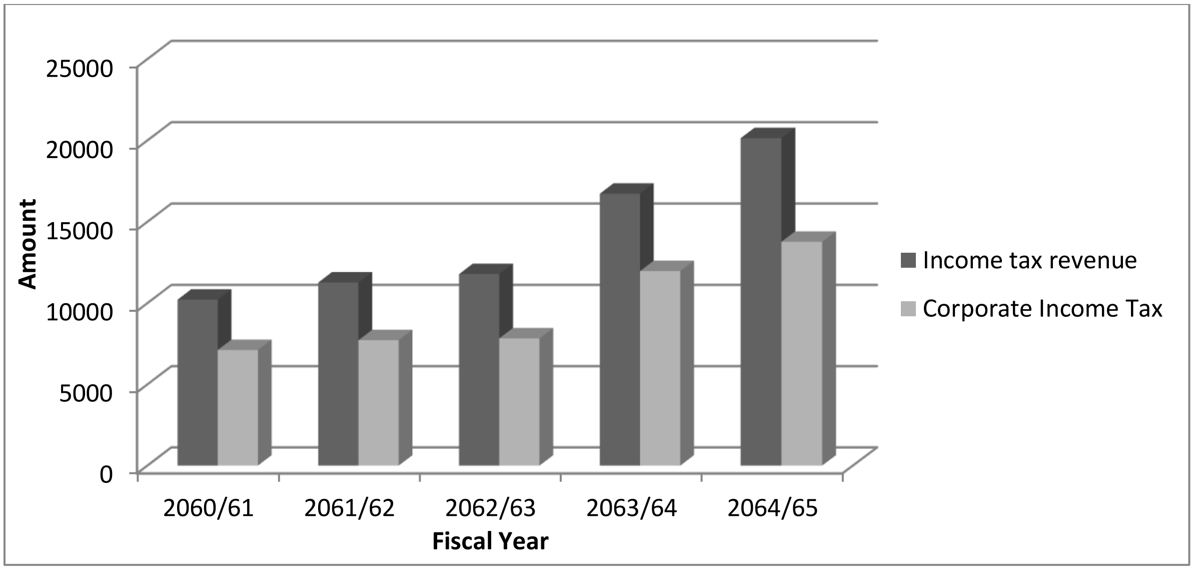
Above table reflects that the contribution of CITR to income tax revenue seems to be in decreasing trend during the study period. It was 69.71% amounting Rs.7121.30 million in the FY 2060/061 which was decreased to 68.54% amounting Rs.7726.52 million in FY 2061/062. But its contribution was started to decrease and reached to 49.04% amounting Rs. 5127.32 million in 2061/62. The fluctuation of contribution of CITR to income tax revenue was maximum on the later year. It was maximum at 71.56% in fiscal year 2063/64 amounting Rs.11971.27.

The structural composition of corporate sector seemed to be changed during the study period .In FY 2060/061, 20.13%, 14.99% and 34.58% contribution was made by government, public and private sector respectively, which were 1.01%, 35.67% and 31.67% in the year 2064/65. It seems that though tax collection from private sector was increasing except 2063/064, its contribution to income tax revenue was in increasing trend. That was due to the proportionate increment of income tax collection from private sector was lower than that of public and government sector, which was the result of volatile situation of trade and economy of the country.

The CITR and income tax revenue position has been shown in the following bar diagram and chart.

Figure 4.4

CITR and Income Tax Revenue



In the above diagram, different years are shown in x-axis and Total income Tax Revenue is shown in y- axis. The above trend line shows that the income tax revenue was in fluctuating.

The relationship between CITR and income tax revenue from the FY 2060/061 to2064/65 was 0.31 which indicates the positive correlation. Out of the tax contribution, CITR explains 75% and remaining 25% was explained by individual income tax, interest tax and other tax.(Appendix-4)

4.3.3.5 Structural Composition of Corporate Income Tax

The corporate income tax structure comprises of government sector, public and private sector. Corporate taxable income calculated by adding all the taxable income and deducting all the allowable expenses. The corporate tax base is explained and presented in the preceding sub chapter. After the enactment of Income Tax Act, 2058, the books of account of corporate sector have been kept a little bit differently. The following table has been drawn to show the structural composition of corporate income tax from the FY 2060/61 to 2064/65.

Table 4.5

Composition of Corporate Income Tax

Fiscal Year	Corporate Income Tax Revenue							
	Government		Public		Private		Total	
	Amt	%	Amt	%	Amt	%	Amt	%
2060/061	2056.63	28.87	1531.27	21.50	3533.40	49.61	7121.30	100
2061/062	1332.4	17.24	2467.82	31.93	3926.3	50.81	7726.52	100
2062/063	195.73	2.49	3404.33	43.45	4234.62	54.04	7834.68	100
2063/064	1019.71	8.51	5717.11	47.75	5234.45	43.72	11971.27	100
2064/065	204.63	1.85	7186.50	52.18	6381.23	46.33	13772.36	100
Average	-	10.99	-	39.36	-	48.90	-	100

Sources : Annual Report of IRD/N

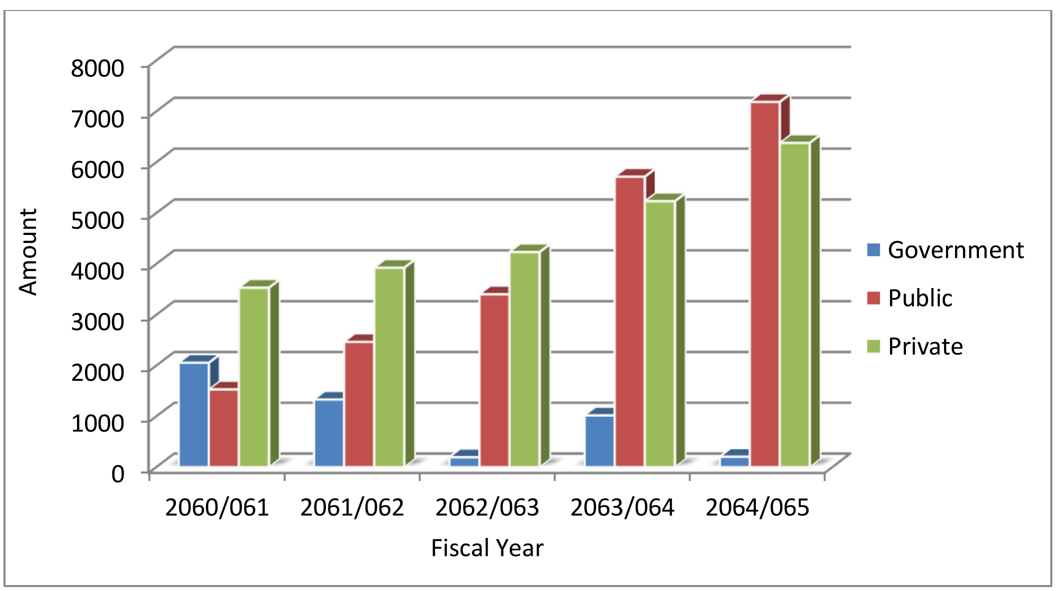
The above structural composition of corporate tax shows that major portion was covered by private sector. It was 49.61% in the fiscal year 2060/061 while the public and government sector contributed 21.50% and 28.87% respectively. The share of government sector was started to decreased, and reached to 1.85% in the FY 2064/65. The contribution of public sector was ultimately seems to be increase during the 5 years from 21.50 % to 52.18% with some fluctuation. The private sector contribution was fluctuated from 43.72% to 54.04% during the period. Private sector was contributing 49.61% amounting Rs. 3533.40 million to

CITR in FY 2060/61 which was increased to 50.81% amounting Rs.3926.3 million in FY 2061/062. It was increase again in FY 2062/063 and riches to 54.04%. The drastic increment in % contribution was due to the retrospective effect of reduce in tax collection from government and public sector rather than the improvement of tax collection from private sector. The average contribution by government sector, public sector and private sector to CITR were 10.99%, 39.36% and 48.90% respectively during the study period.

Total CITR was in the increasing trend except two years i.e. FY 2058/59 and FY 2060/61 respectively. The structural composition of CITR can be presented in bar graph and chart as follows:

Figure 4.5

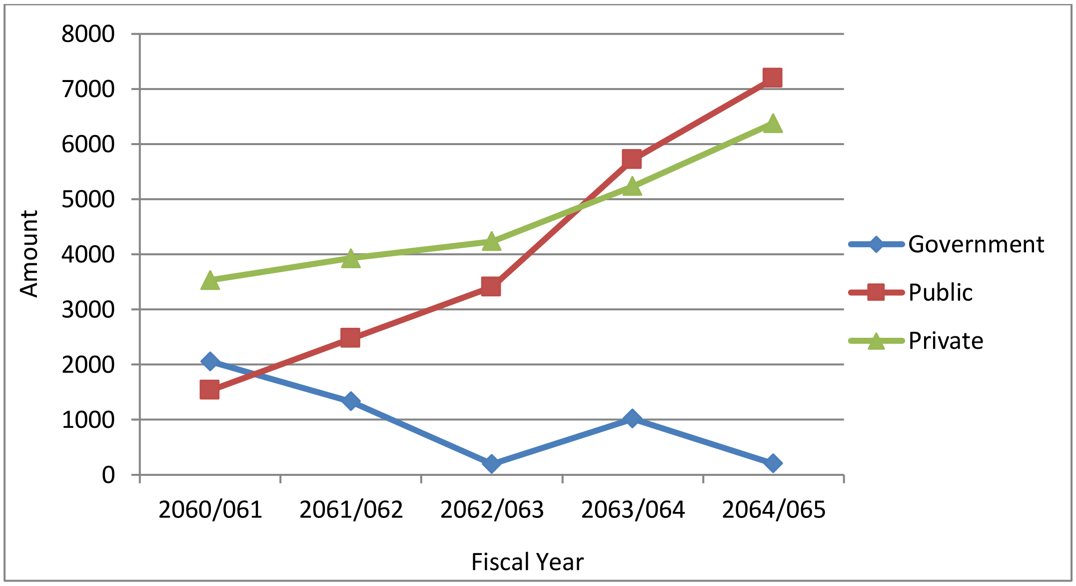
Structural Composition of Corporate Income Tax



In the above bar diagram, different years are shown in x- axis and CITR shown y-axis.

Figure 4.6

Trend Line Showing Components of CITR



The relationship between CITR and government enterprises; CITR and public companies and CITR private companies were 0.95,0.99 and 0.85 respectively during the study period. Out of the tax contribution, government sector, public sector and private sector covers 90.2% and 72.25% respectively and the remaining was covered by other taxes.

4.4 Empirical Investigation

An empirical investigation has been conducted in order to find our various aspects of corporate income tax composition in Nepal. This chapter analyzes information collected from primary sources i.e. through questionnaire. The questionnaire was distributed to the tax administrators, tax experts and tax payers. The response received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The respondents were requested to response on questionnaire by four ways:

- They were requested to response simply by yes or no response
- They could response by selecting one or more options.
- They could response by ranking the choices starting from 1 to most important as per number of choice.
- Respondents had also option to put their views writing wherever necessary.

Table 4.6

Denominations of Respondents Code Used

S.N	Denominations of Respondents	Sample Size	Code used
1	Tax administrators	20	A
2	Tax exports	20	B
3	Tax payers	20	C
4	Total	60	

4.4.1 Corporate Income Tax as a Suitable Means of Raising Government Revenue

In order to know whether income tax as a suitable means of raising government revenue; a questions was asked "Do you consider that the corporate income tax as a suitable means of raising government revenue"? The response was as presented in the table 4.7.

Table 4.7

Corporate income tax as a suitable means of raising government revenue

Respondent	Yes		No		Total	
	No	%	No.	%	No.	%
A	19	95	1	5	20	100
B	18	90	2	10	20	100
C	19	95	1	5	20	100
Total	56	93.33	4	6.67	60	100

Source: Opinion Survey

From the table it is clear that 93.33% of respondents are in favour of corporate income tax as a suitable means of raising government revenue and only 6.67% of total respondents do not recognize corporate income tax as a suitable means of raising government revenue.

4.4.2 Attitude towards Tax Education

To know the respondents attitude towards tax education, a question was asked "Do you think that people are well informed about the tax system in Nepal"? the responses have been tabulated below:

Table 4.8

People's Knowledge towards Tax System

Respondents	Yes		No		Total	
	No	%	No.	%	No.	%
A	-	-	20	100	20	100
B	-	-	20	100	20	100
C	1	5	19	95	20	100
Total	1	1.67	59	98.33	60	100

Source: Opinion Survey

From the table it has been clear that 98.33% of the respondents were against the question "Do you think that people are well informed about the tax system in Nepal?" and 1.67% respondents approved the question. Hence, it can be concluded that tax education is most necessary in Nepal to increase the tax consciousness of Tax payer.

4.4.3 Specific objective of Corporate Income Tax in Nepal

In order to know the specific objectives of corporate income tax in Nepal, respondents were requested to rank their responses. The question was asked "what should be the specific objective of corporate Income tax in Nepal?" table 4.4.3 gives the breakdown of responses;

Table 4.9

Opinion towards Objectives of Income Tax

S.N	Objective of Income Tax	Group			Total Points	Percent	Rank
		A	B	C			
1	To enhance the revenue of the government	70	71	74	215	26.87	1
2	To meet the government expenditure	66	59	62	180	22.5	4
3	To narrow the income between rich and poor	69	69	63	200	25	3
4	To achieve the goal of national development and equal economic distribution	70	68	67	205	25.63	2
	Total				800	100	

Source: Opinion Survey

There was 100% response received from the respondents. Most of the respondents are supporting the objective of to enhance the revenue of the government,26.87% are in favour of the objective of to enhance the revenue of the government.25.63% of them choose the objective of national development and equal economic distribution ,another 25% choose the objective of to narrow the income between rich and poor, 22.55% of them choose to meet the government expenditure (See Table 4.9 for Detail).

Specific objective of corporate income tax are ranked below in order to preference:

1. To enhance the revenue of the government.
2. To achieve the goals of national development and equal economic distribution.
3. To narrow the income gap between rich and poor.
4. To meet the government expenditure.

4.4.4 Attitude towards Corporate Income Tax System in Nepal

To know whether the corporate income tax system of Nepal is sound and efficient or not a question was asked "Are you satisfy with the existing corporate income tax system of Nepal?" the responses received from the various respondents are tabulated as follows:

Table 4.10

Satisfaction Towards Existing Income Tax System

Respondents	**Yes**		**No**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
A	2	10	18	90	20	100
B	-	-	20	100	20	100
C	2	10	18	90	20	100
Total	4	6.67	56	93.33	60	100

Source: Opinion Survey

From the above table, it has been clear that most of the respondents i.e. 93.33% of respondents are not satisfy with the existing corporate income tax of Nepal.

In order to know, the causes of not satisfy with the existing income tax system of Nepal the next question was asked “If no, what are the major problem of the corporate income tax system of Nepal?” The respondents were requested to rank their answer from 1to11. Table 4.10 gives a breakdown of responses.

Table 4.11

Major problem of Corporate Income Tax System

Major Problems	**Group**			**Total**	**Percent**	**Rank**
	A	B	C			
Inadequate economic policy	57	75	96	228	6.62	9
Inefficient income tax administrative	139	201	182	522	15.16	1
Complicated income act, rules and regulation	112	119	124	355	10.31	4
Inappropriate rate and exemption	51	62	57	170	4.94	11
Difficulty in maintaining account for tax purpose	27	68	83	178	4.17	10
Lack of education to the tax payer	101	97	81	279	8.12	8
Lack of awareness to the tax payer	157	119	81	357	10.37	3
Lack of training and sufficient to employee	109	104	116	329	9.56	5
Lack of expert in tax management	68	131	126	325	9.44	6
Practice of tax evasion	167	107	131	405	11.77	2
Illegal business activities	104	78	112	299	8.54	7
Total				3442		

Source: Opinion Survey

The major problem of corporate income tax system of Nepal were ranked in order of the preference of the respondents as follows:

1. Inefficient income tax administrative
2. Practice of tax evasion
3. Lack of awareness to the tax payer
4. Complicated income act, rules and regulation
5. Lack of training and sufficient to employee
6. Lack of expert in tax management
7. Illegal business activities
8. Lack of education to tax payers
9. Inadequate economic policy
10. Difficulty in maintaining account for tax purpose
11. Inappropriate rate and exemption

It can be concluded form the above results that in the opinion of respondents , the corporate income tax system of Nepal is not sound and efficient, basically due to inefficient income tax administration, practice of tax evasion and lack of awareness to tax payers.

4.4.5 Appropriateness of Exemption and Deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction are provided by Industrial Enterprises Act 2049 and Income tax Act 2058, question “Are exemption and deduction provided by Act appropriate?” was asked to find out the opinion of the respondent regarding the exemption and deduction.

Table 4.12

Appropriateness of exemption and deduction

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	3	15	17	85	20	100
B	5	25	15	75	20	100
C	2	10	18	90	20	100
Total	**10**	**10**	**50**	**90**	**60**	**100**

Source: Opinion Survey

Only 10% of respondent agree with present exemption and deduction. But large figure i.e., 90 % respondents disagree with the present exemption and deduction.

4.4.6 Suitable Tax Rate in Nepal

In order to find out the suitable income tax rate system in Nepal, respondents were requested to select any one among the three alternatives. The question was "In your opinion, which income tax rate is suitable for Nepal?" the responses are tabulated in the table 4.13.

Table 4.13

Suitable Tax Rate in Nepal

S. No.	Methods	A	B	C	Total	%
1	Progressive	15	20	10	45	75
2	Proportional	5	-	10	15	25
3	Regressive	-	-	-	-	-

	Total	20	20	20	60

Source: Opinion Survey

4.4.7 Attitude toward Provision of Fees, Fines and Penalties

Income tax system of Nepal has the provision of fees, fines and penalties for the regulation of law. To find out the reasonability of these provisions, a questions was asked, "Are penalties under income tax system is reasonable?" the responses are tabulated as below:

Table 4.13

Attitude towards Reasonability of Existing Provisions of Fees, Fines and Penalties

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	75	5	25	20	100
B	16	80	4	20	20	100
C	11	55	9	45	20	100
Total	**42**	**70**	**18**	**30**	**60**	**100**

Source: Opinion Survey

Above table shows that 70% of respondents have expressed the provisions of fines and penalties are reasonable and 30% respondents have not taken the provision of fees, fines and penalties as reasonable.

The respondents, who were against provisions of fees, fines and penalties, a question was asked "how can it be made reasonable?" the responses of respondents are as follows:

Table 4.14

Reasonable Fine and Penalty Rate

S.N.	Measures	A	b	c	Total	%
1	By increasing	5	2	1	8	44.44
2	By decreasing	-	2	8	10	55.55
Total					18	100

It is clear from the above table 44.44% of respondents who do not agree the provisions of fees, fines and penalties as reasonable felt that it should be increased and 55.55% have felt it should be decreased.

4.4.8 Effectiveness of Income Tax Administration

To know the respondents view regarding effectiveness of income tax administration in Nepal a question, "Do you agree that Nepalese income tax administration is effective?" was asked. The responses are tabulated in the table.

Table 4.15

Effectiveness of Income Tax administration in Nepal

Respondents	yes		No		Total	
	No.	**%**	**No.**	**%**	**No.**	**%**
A	15	75	5	25	20	100
B	3	15	17	85	20	100
C	-	-	20	100	20	100
Total	**18**	**30**	**42**	**70**	**60**	**100**

Source: Opinion Survey

From the table 4.15 it has been clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 70% of respondents recognize it ineffective. The high percentage of respondents who are in favours of Nepalese tax administration is the tax administrators themselves.

4.4.9 Most Important Factors for Effectiveness of Corporate Income Tax

The respondents were requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondents view regarding to important factors for effectiveness of income tax in Nepal. A question, "In your opinion, what is the most important factor for effectiveness of corporate income tax in Nepal to raise government revenue?" was asked .responses is summarized in the table 4.16.

Table 4.16

Most important factors for effectiveness of Corporate Income Tax

S.N.	Factors	Groups			Total Point	Percent	Rank
		A	B	C			
1	Effective tax administration	52	46	60	158	19.75	3
2	Moral and honest tax officers	61	43	40	144	18	2
3	Clear Act, Rules and Regulation	56	56	50	162	20.25	4
4	Conscious and honest tax payers	31	54	48	136	17	1
5	Political non interruption	55	65	80	200	25	5
	Total				800		

Source: Opinion Survey

In table 4.16, rank 1 is given to the lowest % and 5 to the highest. Here lowest percentage is obtained by the factor which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

The important factors for effectiveness of income tax in Nepal according to the preference of the respondents were as follows:

1. Conscious and honest tax payers
2. Moral and honest tax officers
3. Effective tax administration
4. Clear act, rules and regulation
5. Political non interruption

4.4.10 Suggestions for Achieving Effectiveness of Corporate Income Tax in Nepal

To know the other important factors for effectiveness of corporate income tax a question was asked “Do you have any others suggestion for achieving effectiveness of corporate income tax in Nepal?” the responses are as follows:

1. Government economic policy is the main cause for unsatisfactory of effectiveness of corporate income tax in Nepal. So, it should be corrected .
2. Effective tax management and training and seminar to the tax personnel.
3. Development of checks and balance system.

4.5 Major Findings

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

- The corporate tax rates have been revised for several times in the history of corporate. Now a days, private and public companies are taxed at a flat rate of 20, 25 and 30 percent respectively which are the lowest rate in the history of more than one decade.
- The contribution percentage of corporate income tax to total revenue during the study period was fluctuating from 13.64% to 10.92%. The share of corporate income tax revenue was 11.42% amounting Rs. 7121.3 million in the FY 2060/06, this contribution is not satisfactory for developing country like Nepal.
- The CITR’s contribution to total tax revenue was fluctuated during the study period. It was 14.78% in the FY 2060/061, which was gradually decreased and reached to 14.29% of minimum contribution in the FY 2061/62 This indicates the low portion of research mobilization from domestic sources.

- Contribution of CITR to direct tax revenue was fluctuated between 59.65% to 71.90% during the analysis period.
- The contribution of CITR to income tax revenue seems to be in decreasing trend during the study period. It was 69.71% amounting Rs.7121.30 million in the FY 2060/061 which was decreased to 68.54% amounting Rs.7726.52 million in FY 2061/062. But its contribution was started to decrease and reached to 49.04% amounting Rs. 5127.32 million in 2061/62.But the massive fluctuation in CITR collection and its percentage contribution was due to the effect of unfriendly political and economic environment and lack of developing competency by public and private sector.
- Structural composition of corporate tax shows that major portion was covered by private sector. It was 49.61% in the fiscal year 2060/061 while the public and government sector contributed 21.50% and 28.87% respectively.
- In global analysis the national revenue from the corporate income tax is greater in FY 2063/64 than the previous FY. But this amount is also not satisfactory. To increase this amount government should encourage private corporate sectors in future.

On the basis of empirical analytical analysis some major findings can be drawn which are summarized below.

- Corporate income tax is the suitable means of government revenue.
- Tax education is most necessary in Nepal to increase the tax consciousness of tax payers
- The major objective of the corporate income tax in a Nepal is to enhance the revenue of the government, to achieve the goals of National Development and equal economic distribution.

- Income tax system of Nepal is not sound and efficient, basically due to inefficient tax administration, practice of tax evasion and lack of awareness of tax payers.
- Exemption and deduction is to promote the business enterprises.
- Suitable tax rate is the most important factor of corporate income tax.
- Provision of fines penalties of Nepal are reasonable for which 70% of respondents have supported and remaining 3o% were in against.
- Income tax administration is not efficient to collect tax.
- Lack of trend and competent tax personnel, complicated tax laws and undue delay in making assessment are the most important causes of ineffectiveness of Nepalese tax administration.
- Honest tax officer and clear act, rules and regulations are the most important factors for the effectiveness of income tax in Nepal.

CHAPTER - V

SUMMERY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Revenue has been collected from various sources of nation in different fields of it by approving tax laws and regulations. The collected national revenue is spent by government in different aspects of national prosperity to achieve goal of welfare states concept. The policy of revenue collection is different on the basis of respective national socio-economical infrastructure and environment. National expenditure is increased according to demand of social structure and time. Considering above these thing, nation have been collecting the revenue in different field of nation i.e. external and internal sources of national revenue. These external and internal sources are important to mobilize or handle to national resources. From where, nation takes better steps for social well beings. Among the internal and external sources of nation, taxation is one. In various types of tax, categories, corporate income tax is most important and crucial role play to achieve higher economic growth rate. Corporation earns its income from doing its business transaction. These corporate incomes are calculated by the help of general accounting principle and respective nations are calculated by the help of general accounting principle and respective nations tax laws and regulations for tax purpose. This study attempts to analyze the importance and contribution of corporate sector to the Nepalese government revenue.

Descriptive cum historical research design has been used to search its objectives, whole area relating to government revenue is set for the research population and corporate income tax is taken as sample size. Difference interactions method and strategy have been used to collect secondary data as well as primary data were also collected by using survey method. Analytical tools such as table, percent, bar, graph, trend lines, average and correlation are used for research methodology. Projections have been made for the next three subsequent years taking the FY 1999/00 as basic years.

As the corporate income tax has been separated from individual income tax since 1993/94. Corporate income tax collection has been increasing continuously few years. In the government revenue, tax revenue has contributed more than 75%. But all the developing countries like Nepal have equal importance of direct tax which is 84.86% on average. This figure shows the importance and contribution of corporate sector to government revenue in Nepal like developing countries.

The intra-structural compositions of corporate income tax seem to be dominated by government sector. The average contribution of government, public and private sector were found 44.75, 31.29 and 23.96% respectively during the study period. All the relationship between CITR and total tax revenue, CITR and income tax revenue, CITR and total revenue were found to be positively correlated. As per the projection le data, tax collection from various tax heads will increase. But the contribution % of corporate income tax to different head will slightly decrease.

In order to know the problems of existing corporate income tax act and to give necessary suggestions on it, a set of questionnaire were distributed among Tax administrators,, Tax experts and Tax payers. On the basis of opinion survey empirical investigation has found some weakness of the existing in come tax act. If not only found weakness but also point our some satisfactory aspects of the existing income tax act.

According to the investigation corporate income tax is a suitable means of raising government revenue as well as the tax education is necessary in Nepal for which 91.67% and 98.33% respondents have supported respectively. It is found that inefficient tax administration, tax evasion and inappropriate objectives of income tax were the main causes in proper collection of income tax in Nepal. Self-assessment method of assessing income tax is more appropriate in Nepal. 70% of them were in support and remaining 30% were in against about reasonability of fees, fines and penalties. Some of respondents made advice like this, government economic policy; effective tax management, training and seminar to the tax personnel and development of checks and balance system can lead income tax towards its efficiency.

5.2 Conclusion

The sound economy of a nation largely depends on the well developed corporate sector. Development of corporate sector is possible through corporation friendly rule, law and regulation on one hand and the process of industrialization on the other hand. It is also important to develop the corporate culture in Nepalese corporate sector.

In the context of Nepal, she has been liberalized after the restoration of democracy in 1990. Number of public government enterprises have been privatized in this period and some of them have been either liquidated or merged. Like wise, Nepal has entered in WTO mains stream of trade in 23rd April 2004, which has given the potentiality to increase foreign direct investment and access of Nepal to international market. But in reality y, it has strongly challenged the Nepalese small entrepreneurs and corporate house too in the side of quality and price and it has also increased the possibility of Nepal being as a dumping side of giant multinational companies. So, Nepalese corporate sector has been facing serious challenges. The main reasons are significant expansion of regular government activities, increasing cost of maintenance, increasing debt servicing charges etc.

Corporate sector is in initial stage of development in Nepal which is small and stagnant in nature comparing to other developing country. The performance of corporate sector, especially the industry is very poor. Their number, profitability, investment in fixed assets, share of market transaction is all in weak position. Nevertheless, the importance of contribution of corporate income tax to government revenue is equally important to like Nepal developing country.

Corporate income tax is based on socio- economic infrastructure and environment. In the corporate income tax structure the debate is going on use of appropriate type of tax incentives, treatment of inflation, method and rate of depreciation. The present provision of tax incentives are found insufficient in the changing global economic scenario especially for revival of sick industrial unit. The statutory corporate tax rates are found frequently changed during the study period. Unclear vision of government to corporate sector, frequent change of rule and regulation and unstable political – economic environment of Nepal has sharply damaged the corporate sector.

However, income tax laws administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad, some provisions would have to be mentioned clearly. Strong commitment, fair and uniform imposition is to be stored and revitalized. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side, tax education packages are to be made and imitated hence, tax administration and tax compliance could be improved.

5.3 Recommendations

On the basis of the study, the following recommendations are made in order to increase the contribution o f corporate income tax in revenue collection of Nepal.

1. Corporations sectoral tax laws, regulation and rules should be improved accordance with general accounting principle because a corporation, which is core elements of nation, can only live and survive in sound its sectoral laws and regulation. Most of the provision of present income taxes law creates confusion to assessment, filling tax imposed and other benefits etc.
2. Structural composition of corporate income tax was found to be dominated by government sector in spite of increases in tax collection from private

sector, its contribution percent to CITR was fluctuated. So, the performance of private sector is not satisfactory in overall. Government should do proper homework before privatizing the enterprises and company and a research should be undertaken, why the performance of private sector is poor even then government is giving more emphasis to it.

3. Government should make a clear cut distinction between the role of public and private sector. It should take an endeavor to motive, facilitate and regulate to accelerate the private sector.
4. Recent decreasing trend of CITR indicate that it is necessary to protect corporate sector from different external security threaten. So, priority should be given to maintain its existence.
5. Corporate sector should have to increase its competency on one hand on the other hand private sector should have given reasonable protection and encourage by the government in future.

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APPENDIX

Questionnaire to Tax Administrators/ Tax Exports / Tax Payers

Name: **Designation**

Office/organization: **Occupation**

Please Tick ( ) the answers of your choice or where appropriate put in order of preference from I to last number on the basis of alternatives. Number I stands for the most important and vice versa.

1. Do you consider that the corporate income tax as a suitable means of raising government revenue?

   (i) Yes [ ]

   (ii) No [ ]

2. Do you think that people are well informed about the tax system in Nepal?

   (i) Yes [ ]

   (ii) No [ ]

3.What should be the specific objective of corporate income tax in Nepal?

   (i)To enhance the revenue of the government

   (ii)To meet the government expenditure

   (iii)To narrow the income gap between rich and poor

   (iv)To achieve the goals of national development and equal economic Distribution

4. Are you satisfy with the existing corporate income tax system of Nepal?

   (i) Yes [ ]

   (ii) No [ ]

If not, what are the major problems in corporate Income Tax system ? (please rank according to the priority)

(i)	Inadequate economic policy	[ ]
(ii)	Inefficient income tax administrative	[ ]
(iii)	Complicated income tax act, rules and regulation	[ ]
(iv)	Inappropriate rate and exemption unit	[ ]
(v)	Difficulty in maintaining account for tax purpose	[ ]
(vi)	Lack of awareness to tax payer	[ ]
(vii)	Lack of education to tax payer	[ ]
(viii)	Lack of training and sufficient incentives to Employees	[ ]
(ix)	Lack of export in tax management	[ ]
(x)	Illegal business activities	[ ]
(xi)	Practice of Tax evasion	[ ]

5. Are exemption and deduction provided by Act appropriate ?

(i) Yes [ ]

(ii) No [ ]

6. In your opinion which income tax rate is suitable for Nepal ?Select any one among three alternatives.

(i) Progressive

(ii) Proportional (iii) Regressive

7. Are the provisions of fees, fines and penalties under income tax system is reasonable?

(i) Yes [ ]

(ii) No [ ]

If not, how can be made reasonable ?

(i) By increasing

(ii) By decreasing

(iii) (iii) others …………..

8. Do you agree that Nepalese income tax administration is effective ?

(i) Yes [ ]

(ii) No [ ]

9. What is the important factor for effectiveness of income tax in Nepal ?(Please Rank)

(i) Effective tax administration

(ii) Moral and honest tax officers

(iv) Clear act, rules and regulation

(v) Conscious and honest tax payers

(vi) Political non interruption

10. Do you have any others suggestion for achieving effectiveness of income tax in Nepal ? if yes, please

Specify……………………………………………………………………………

……………………………………………………………………………………

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