

CHAPTER-ONE

INTRODUCTION

1.1 Background of the Study

Government revenue is the most important source of financing government expenditure. To achieve the national objectives the government is required to make and implement various policies and planning, acts and procedures. Besides these functions revenue mobilization is one of the most important functions of the government. Taxation is one of the important sources of revenue mobilization.

The Nepalese economy is an agro-based developing economy. The agricultural sector provides employment to nearly about 80 percent of total population. The output per head in the agricultural sector is very low in comparison to that of developed countries. The balance of payment is not favorable. In every year import of goods is higher than export of goods. It has also been commonly known that the gap between expenditure and revenue that is called as "resource gap" is increasing in each year.

Therefore the resource gap has been a serious bottleneck, in the process of economic development of developing countries like Nepal. Therefore, to raise government revenue, it is necessary to raise its source of revenue.

Income tax is charged on a person's income. It is common belief that the income in excess of a person's minimum requirement for his/her living should be taxed. Therefore, income tax should be not levied up to an income required to meet the general expenditure to maintain the living standard of an individual on family. This minimum level of income is also called subsistence level of income. The subsistence level of income may differ from family to family and other relevant socio-economic factors.

Corporate is a business or entity which has separate legal personality, with limited liability or unlimited liability for its members or shareholders, who buy and sell their shares/stocks depending on the performance of the board of directors.

Corporations are the most common form of business organization, and one which is charter by a state and given many legal rights as an entity separate from its owners. This form of business is characterized by the limited liability of its owners, the issuance of shares of easily transferable stock, and existence as a going concern. The process of becoming a corporation, called incorporation, gives the company separate legal standing from its owners and protects those owners from being personally liable in the event that the company is sued (a condition known as limited liability). Incorporation also provides companies with a more flexible way to manage their ownership structure. In addition, there are different tax implications for corporations, although these can be both advantageous and disadvantageous. In these respects, corporations differ from sole proprietorships and limited partnership.

A tax that must be paid by a corporation based on the amount of profit generated. The amount of tax, and how it is calculated, varies depending upon nature of corporate & the region where the company is located. Government has charge standard rate of corporate in Nepal is 25 percent. However different entities of tax rate are different rates. Also rebate to tax if fulfill government requirement, which has been contribute to growth national economy. Like as Special Industries operating in much undeveloped area, undeveloped area, Special Economic Zone etc.

The developing countries of the world are facing a serious problem of discrepancy between the resource mobilization and expenditure policies of their government. Nepal is not an exception. It is due to the rapid increase in government expenditure as compared to revenue from internal sources.

Internal sources have no obligation toward the third party and are less risky compared to the external fund. The government is not obliged to pay back the fund and only has to look the needs of his economy and the interest of its resident while mobilizing internal resources. It is the best sources to fund the development activities and can play a vital role in the developing countries, which are facing difficulties on raising funds from

internal sources. It is seen that developing countries having low per-capita income highly depend on the indirect tax than the direct tax. The share of income tax is much low in the composition of direct tax revenue. It is so, because of the low tax paying capacity due to low level of income of the residents. Minimum no of level corporate house which has paid large value of tax (direct & indirect). So government will make tax policy for motive to increase business & ultimately increases government revenue.

History of corporate tax is not long. It was started in 1909 USA when 1 percent excise was levied on the corporate i.e. companies on the ground of privilege enjoyed. After this all the developing countries followed the corporate tax. Now it is contributing a substantial amount of revenue of state treasury of countries. Corporate tax rate is being increases and decreases at short interval of time. Corporate tax was initially very low. It was increases rapidly after the First World War and has started to decline after the 1980s. In Nepal introduced corporate tax was 1960 which is guided by Business Profits & Remuneration Tax Act, 1960. Currently corporate income tax is guide by Income tax act 2002.

The ultimate goal of developing countries like Nepal is the rapid economic development for the various problems created by over population, unemployment and low standard of living. Capital plays a vital role in the rapid economic development programs more money has to be spent in various projects. So, a lot of financial resources are needed for country. Government could get capital by two-financial sources. One is by external sources and the other is internal sources. So currently this study is focused on history of corporate tax for trend analysis of corporate income tax. Contribution on Government revenue from corporate tax & it's relationship with total revenue. Also we will study contribution to GDP from this sector. There are many provisions that are aimed to enhance revenue mobilization through effective revenue collection procedure from corporate. So that trend & pattern of corporate income tax in Nepal will certainly increase in the days to come.

1.2 Statement of the problem

Nepal has been facing the most serious economic problem. Nepal has very limited government revenue resources. Because of social and regional or geographical differences and lack of finance in Nepal there is no condition to utilize even potential resources, which could contribute, significant in total government revenue. In such condition corporate income tax is one of most importance revenue resource, which must have given emphasis by the government to enhance its revenue. According to the World Bank's report of 2011, contribution of tax revenue on GDP in Nepal is only 11 percent and the same year, in other SAARC countries, it is higher than Nepal. The experiences of the developed countries clearly indicate that income tax may be one of the major elements for the increment of internal revenue but in Nepal its trend & pattern has not increased significantly.

Nepalese economy is an agro based developing economy. The agriculture sector provides employment to nearly about 80 percent of total population. The gap between expenditure is increasing each year. Therefore, the recourse gap has been serious bottleneck on the process of economic development of developing countries like Nepal. Therefore, to raise government revenue it is necessary to raise its sources of revenue. Among the various sources of government revenue, corporate income tax is the most important source. Therefore, the present study has been designed to trend & pattern of corporate income tax in Nepal and find out the problems in corporate income tax system in Nepal. Nepalese tax system to mobilize the internal resource in optimal level is fundamental need of the country but appears very poor and inefficient picture. So, on the basis of above studies, we can list some problems regarding tax as under:

1. What is the structure of income tax in Nepal?

2. What is the trend & Pattern of Corporate income tax in Nepal?
3. What is the relationship of corporate income tax on total revenue in Nepal?
4. What are the problems of income tax in tax administration Nepal?

1.3 Objectives of the Study

The main objective of the study is to analyze the trend & pattern of corporate income tax in Nepal.

The other specific objectives hold the following:-

1. To identify the structure of income tax in Nepal.
2. To analysis the trend & pattern of corporate income tax in Nepal.
3. To assess the relationship of corporate income tax and total revenue in Nepal.
4. To indicate the loopholes of income tax in tax administration of Nepal.

1.4 Significant of the Study

Nepal depends upon the external sources more than on the internal sources. The available resource does not need the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Nepal is one of the lowest economies in the world as her tax; GDP as well as tax GNP ratio is the lowest among SAARC counties and among the rest of the world as well. The external sources like foreign aids and borrowing are not enough for the economic development programs being a developing country, sources of public revenue are very limited in Nepal. Revenue structure of Nepal mostly depends on the foreign assistance and loan but it is unfavorable to the country. Domestic resources are reliable sources to keep minimum dependency of foreign aid and loan. Taxation is a major device for mobilization of internal sources. It is considered as the most effective and reliable instrument for balance economic development and maintaining economic stability. Thus, income tax seems to be one of the major potential sources for mobilizing a larger amount of financial resources in Nepal.

This study will be helpful to the economist, planners, tax officers, and tax administrators of government. Similarly, this study can also be helpful to the students, teachers, researchers and other individuals who are interested in the corporate income tax system of Nepal.

1.5 Limitation of the Study

There are some limitations of the study which are given below:

- The data & information which are used in this study are based on secondary sources.
- Reliability of the secondary data has not been tested.
- Main Focus will be given to corporate income tax in Nepal.
- This study covers the period only Six fiscal year (FY2006/07 to FY2011/12)

1.6 Organization of the Study

The study has been organized into five chapters each devoted to some aspects of the study “A Study Trend and Pattern of Corporate income tax in Nepal.” The titles of each of the chapters are as follows.

1. Introduction
2. Review of Literature
3. Research Methodology
4. Presentation and Analysis of Data
5. Summary, finding and conclusion.

The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the chapters of this study are briefly mentioned here.

The first chapter is about introduction of research study. The second chapter is concerned with the review of literature. The third chapter is related to methodology, which have been applied in the research study. Chapter four and five are major parts of the study.

Chapter four is make the critical analysis of Trend and Pattern of Corporate income tax in Nepal with the assistance of authoritative data and opinion survey. On the basis of analysis, it will try to find out whether the corporate income tax performance in Nepal is satisfactory or not.

Chapter five is mainly related with increasing trend of corporate income tax to national revenue, i.e. improvements that should be made in present situation to increase contribution of corporate income tax to national revenue Indices and Bibliography have been presented in the last part.

CHAPTER- TWO

REVIEW OF LITERATURE

2.1 Introduction

The government of a country requires sufficient revenues to carry out development plans, to handle day to day administration, to maintain peace and security and to launch other public welfare activities. The government collects revenues from various sources such as tax, revenues from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue. In the present world, income tax occupies one of the most important sources of revenue in most of the countries. Whether it is developed or, underdeveloped countries, income tax is regarded as the most important tool for mobilizing internal resources whether the contribution of income tax to the government revenue may be high, low, it has got much more importance in most of the countries of the world. To know the term "Corporate income tax", it is better to define the term "Corporate", "income" and "tax" separately. Corporate is a separate legal entity or business. Income is generally regarded, as the best measure of ability is the sense of economic well-being, for income is the primaries determine of the level of living that a family & corporate enjoys.

Tax is a fee charged ("levied") by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. The purpose of

taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes. - Md. Sohel Rana (Bangladesh)

The term "Tax" refers a compulsory contribution from a person to the government. According to Seligman "taxation is the compulsory contribution from a person to the government to defray expenses occurred in the common interest of all without reference to special benefit conferred." According to Plehn – "Taxes are general contribution of wealth levied upon person, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states" (Dhakal 2001: 2).

The tax is collected from haves and basically spent for the interest of have-nots in the society. In this way, income tax, as the word itself refers to a tax levied on income. In a broad sense, income tax is a levy based upon the production or, receipts, or, gains of the taxpayers within a defined period of time, from the beginning, income tax has been always regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of the tax according to their income. Apart from such consideration as revenue productivity, income tax has been regarded as the ideal tax from the point of view of equity. The economists have a view that an income tax is a levy imposed upon the incomes of an individual after the exemption limit.

Only the taxable income is subjected to tax. Otherwise, the objectives and principles of taxation will not be fulfilled. Income tax is imposed on excess income over exemption limit. All income above the tax exemption level is subjected to income tax that is based on the income tax act of the concerned country. Different countries may have

different concept on income tax. In Nepal, income is levied on the net income derived after deducting all allowable deduction. According to income tax act 2002(2058 B.S.), "Income means a person's income from any employment, business or, investment and the total of that income as calculated in accordance with this act and tax imposed under this act is known as income tax".(Section 2h)

Corporate is a business or entity which has separate legal personality, with limited liability or unlimited liability for its members or shareholders, who buy and sell their shares/stocks depending on the performance of the board of directors.

Corporations are the most common form of business organization, and one which is chartered by a state and given many legal rights as an entity separate from its owners. This form of business is characterized by the limited liability of its owners, the issuance of shares of easily transferable stock, and existence as a going concern. The process of becoming a corporation, called incorporation, gives the company separate legal standing from its owners and protects those owners from being personally liable in the event that the company is sued (a condition known as limited liability). Incorporation also provides companies with a more flexible way to manage their ownership structure. In addition, there are different tax implications for corporations, although these can be both advantageous and disadvantageous. In these respects, corporations differ from sole proprietorships and limited partnership.(Wikipedia)

A tax that must be paid by a corporation based on the amount of profit generated. The amount of tax, and how it is calculated, varies depending upon nature of corporate & the region where the company is located. Government has charge standard rate of corporate in Nepal is 25 percent. However different entities tax rate are different rates. Also rebate to tax if fulfill government requirement, which has been contribute to growth national economy. Like as Special Industries operating in much undeveloped area, undeveloped area, Special Economic Zone.

Corporate tax incentives are a main instrument to attract investment, as well as to promote growth objectives. Most of the corporate tax incentives are tax rebates and are conditioned on generating employment or on location. Tax rebates seem to be offered extensively.

Agricultural and rural cooperatives are exempt of CIT, and “special industries” operatives, infrastructure industries, including electricity sector, and export income benefit from tax credits. Many of these tax rebates apply indefinitely. Tax holidays are less prevalent and they apply for between 5 and 10 years. Investment allowances and accelerated depreciations seem to be rare in Nepal. Further, companies in Special Economic Zones benefit from deductions in CIT as well as in custom duties. (Income tax act 2002)

2.2 Origin and Development of Income Tax/ Corporate tax in the International Context

The history of present income tax is the story of wars, confrontation and resistance. At first, modern income tax was originated in United Kingdom in 1797 A.D. Actually, it was short-term war-aimed tax that was imposed on its citizen's income by the Prime Minister William Pitt to manage the war expenditure during the French revolutionary war and at the end of war, and it was dismissed in 1816. But it was re-imposed for five years to strengthen national finance and United Kingdom's Prime Minister Sir Robert pill in 1842 to improve national financial condition, which was remained up to 1860 without being dismissed and from 1860. It is being imposed through the economic act, in each year. In USA, the federal income tax was enacted for the first time in 1862 to finance civil war expenditure. After the 6th amendment in United States constitutes in 1913, the modern income tax was permanently adopted. Germany introduced income tax during 1840. It was exclusively state tax that became federal tax from 1920 to 1945. In France, the efforts were begun to enact income tax in 1870.

The income tax bill was enacted as an emergency measure just two weeks before the First World War that started in 1914. Italy adopted an income tax in 1864 as one of the first product of its unification. Norway introduced the income tax in 1892 and made its rates progressive in 1896. Sweden accepted modern income tax on the permanent basis in 1910. New Zealand adopted income tax in 1891; Australia in 1915 and Canada in 1917. After First World War, the income tax became an important source of tax revenue in many developed countries. The income tax, which was started as war, became an essential source of revenue of almost countries all over the world after Second World War. In the beginning, income tax was generally levied at a flat rate. United Kingdom and New Zealand adopted the principle of progression in 1909.

Nowadays, it is hard to find countries without income tax. It has got deep relationship in fiscal system of most of the countries in the world (Agrawal, 1978: 41). The importance of income tax has increased day by day and by the mid of 20th century, it has not only remained as a source of revenue for emergency but has become a regular source of national revenue.

2.3 Development of Income Taxation in Nepal

The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951, the finance minister in his budget speech declared the intention of the government to levy on income tax. Attempts were made to introduce income tax in subsequent years. In 1954, in income tax with Rs. 10000 basic allowance and progressive taxes ranging from 5 to 25 percent was proposed. Due to political instability, it could not be introduced until 1958.

The first elected government in 1959 finally introduced business profits and salaries tax act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years experience of income tax, the government replaced the prevailing tax act, by income tax act, 1962. The coverage was extended in the act in 1974, income tax act, 1974 (2031) was enacted. The act enumerated income

sources into five groups (a) Agriculture (b) Industry, trade, profession or, occupation (c) remuneration (d) House and compound rents (e) other sources. However, agriculture income had been kept outside the tax net except few years through the finance acts. Reliable records about taxation in ancient and medieval Nepal are not available.

However, tax has been one of the major sources of government revenue from the ancient time in Nepal. At that time, tax on agricultural income was called "Bhaga" and tax on business income was called 'Kava". There was also irrigation and religious monuments preservation taxes during the period of king Anshuverma of Nepal. During the period of 1763-01846 A.D., taxation had a board sense is the unified Nepal and different types of taxes were levied to generate maximum revenue for the government. During 1846-1950 A.D, the period of Ranas, there was no formal provision for taxation. Under the family rule of Ranas, for all practical purpose; there was no different between the personal income of the ruling prime minister and government fund.

The main sources of the revenue in Nepal were land tax, custom tax and excise duties in the form of lump sum contracts, royalties on forest, royalty's supply of porters and soldiers, entertainment tax few other minor-taxes. There was no direct tax in the country except land tax collected on a contractual basis and "salami" which the government employees used to pay end of their salary at a very small percentage. After the advent of democracy in the country in 1951 A.D., the role of government changed. Since then, the government was enforced to implement development activities besides performing the regular function for implementing development program, various type of direct and indirect taxes have been brought in use by the democratic government. The history of modern income tax in Nepal is not very long. (Poudel & Timalisina 1990)

The concept of modern income tax was brought only by the first budget. The budget, introduced in 2008 B.S. stated about the introduction of income tax system in Nepal. But, it was actually started form 1960 (2017 B.S.) in the forms of "Business profit and remuneration tax." The business profit and remuneration income were subjected to

tax according to "Business profit and remuneration tax act 1960." The development of income tax in Nepal can be presented with the implementation of different income tax acts with the flow of time.

2.3.1 Business Profit and Remuneration Tax Act (2017 B.S.)

The finance act 1960 made a provision for the taxation of business profit and remuneration. An ordinance was issued by the king to collect this tax. In 1960, the parliament of Nepal enacted "business profit and remuneration tax act 1960 (2017 B.S.)" which consisted of 22 sections.

2.3.2 Income Tax Act 1962 (2019 B.S.)

The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create taxpaying habit of the taxpayers. The income tax act 1962 and 29 section compared to 22 sections of the previous act. It was amended in 1972 (2029).

2.3.3 Income Tax Act 1974 (2031 B.S.)

Income tax act 1974 had consisted 66 sections. Its basic framework was derived from previous income tax act 1961. This act was amended for eight times to make it more practical and to eliminate confusing terms. His Majesty's Government enacted the income tax rule 1982 (2039 B.S.) in 1982 (2039-1-27) in accordance with the authority given under section 65 of income tax act 1974.

2.3.4 Income Tax Act 2002 (2058 B.S.)

The income tax act, 2002 (2058 B.S.) is the existing law relating to income tax administration. It consists of 143 sections along with 24 chapters. This income tax act is made effective from April 1, 2002 (2058 Chaitra 19). The objective of introducing the new act is to enhance the revenue mobilization through effective revenue collection procedure. The main motto of its act is to promote the economic development of the nation. This new act has imposed the tax on income realized from every person,

Institution or corporate, a foreign permanent establishment of a non-resident person's situated in Nepal and has repatriated income for the year. Some of the important features of income tax act 2002 are as follows:

- Income tax act 2002 has amended and integrated all the laws relating to income tax in Nepal. This act supersedes the entire relevant act, having provision relating to income tax.
- Right of taxpayers is clearly mentioned. This act has specified the provision regarding to taxation on capital gain and dividends.
- Provision regarding to general anti-avoidance rule, control of transfer pricing control of thin-capitalization, control of dividend stripping are introduced for the first time.
- Only the finance act has got power to amend the provisions of this income tax act.
- This act has clearly defined more than 65 terms that are related with income tax administration.
- This act has divided all the sources of income in three categories i.e. employment, business, and investments.
- This act has tried to cover all transaction considering the needs of present as well as future.
- This act has not included the windfall nature gains under income tax system.
- Any expenses, which are incurred in the course of earning taxable income, are allowed for deduction. Such expense should be related to income year, to be spent by taxpayer in relation to concerned transaction.
- Provision for the carry forward of losses has been extended for the period of 4 years for general business and special provision of carry backward of losses for banking and insurance company is provided from the profit of last 5 years.

- Special incentives and rebates have been provided to special industries and project relating to infrastructure development and hydropower. Earlier, such provisions were mentioned in separate acts.
- This act has fully adopted the tax system with self-assessment of tax.
- Tax accounting and timing, characterization of incomes, calculation of net gain from assets and liabilities, special provision of individuals, entity, insurance and banking and retirement fund are introduced for the perfection in new tax administration.
- The income of resident person from the employment, business as investment of the year is taxable in respect of the location of the sources of the income, but regarding the income of non-resident person, only the income that has sources in Nepal is taxable.
- This act has shortened the list of eligible deduction regarding to income from employment.
- The taxpayers are given the right to appeal against tax assessment to general director of IRD for administration reviews are given the right to appeal to court under revenue tribunal act.
- Pension, gratuity, Dashain allowance, refund of retirement fund etc. are also treated as taxable income for the first time.
- All natural persons have been given right to claim medical tax credit and extra exemption limit has been provided for the taxpayers of remote areas.
- Special provisions for pollution control expenses (PCC), research and development expenses (R and D) and donation have been introduced with limit for treating as expenditure.
- Provision for depreciation has been introduced with pool system having five groups of depreciable assets. Depreciation is also claimable for intangible assets

for the first time. This act has simplified the depreciation related provisions. This act has specified diminishing balance method based on pool system with 5 categories of assets.

- This act has made a provision of valuation of the stock of trading goods for tax purpose that is more liberal than the earlier provision of old acts.
- Concept of international taxation has been introduced in the new act. The provision introduced in the tax law relating to international taxation is transfer pricing, foreign tax credit, double taxation avoidance agreement etc.
- This act has made the provision of fine and penalty more strengthened. It has made even the provision of imprisonment up to 3 years.
- This act has made a provision of relaxing the submission of income statement by a person who doesn't have taxable income and who has the income from remuneration only.
- As opposed to previous income tax act, income tax act 2002 has specified the tax rate applicable to the taxpayer of different categories. It was a practice in the past that the rate of tax used to be given in finance act of each year.

2.4 Sources of Income in Nepal under Income Tax Act, 2002 (2058 B.S.)

The act imposed tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labour, capital and capital labour activities that generated income from employment, investment and business respectively. It has made broad classification of income encompassing of all income earning activities. They are:

- Income from employment
- Income from business
- Income from investment

2.4.1 Income from Employment

Income from employment on remuneration is one of the important sources of income under the current income tax act. Remuneration means amount given to employee against the service provided by him. In case of remuneration there used to be one getting service and other providing service. The person getting service is called employer and the person providing service is employee. Certain conditions are required to come under remuneration. There should be employer and employee relationship between two people and the amount paid should be of regular nature. Income tax act 2002 has defined employment as the past, present on prospective employment of future. Income tax act 2002 has specified the income from employment under section 8. As per the act any type of income from any employment is taxable income.

2.4.2 Income from Business

Business means use of capital and labour to earn income. It is the combination of capital and labour. It is equivalent to the business profession or, vocation defined by income tax act, 1974. Income tax act 2001 define business as the business transaction related to industry, trade, profession or any other similar types of activities. According to the act, it encompasses above stated types of activities conducted in past, present or future. Business income mainly refers to different types of income earned from different sources of business. The amounts that is included in computation of "income from business"

2.4.3 Income from Investment

Investment income means income generated from the use of capital. Investment means use of capital for the purpose of getting income. According to income tax act 2002, "investment means an act of holding or, investing one or more assets of a similar nature that are used in an integrated fashion." However, it excludes the act of holding assets other than non-business taxable assets for personal use by the person owing the assets or investing amount on such assets or employment or business related income.

Section 9 of "income tax act, 2002" has showed the incomes that are to be included in the head of investment. This section defines the investment income as the profit or gain from conducting the investment for the year. For the purpose of calculating income from investment, following income is to be included: Any dividend, interest, natural resources payment, rent, royalty, gain from investment insurance, and gain from an unapproved retirement payment or retirement fund from approved retirement fund (Sec. 9.2).

2.5 Corporate Tax

A Corporate body is voluntary association of personal formed to run business activates for fulfilling the objective of earning profit by collecting capital and selling shares. A person or some person interested to carry on any business or mercantile activity or other lawful tread with the motivation of earning profit by contributing money or money's worth incorporation. Corporate bodies conduct business and generate profit. Corporate tax is a tax levied on the corporate bodies contrast to unincorporated enterprise. So corporate tax is comes from profit, which made by corporate bodies in particular time period.

Thus, corporate income tax can be expressed as:

Corporate income tax = <All income of corporation with capital gains – all general expenses of corporation business as well as capital gain – special deductible items which are enacted by taxation laws and regulations > * tax rate

2.5.1 Nepal Corporate Tax Rates

The standard rate of corporate tax in Nepal is 25 percent. However, different entities are taxed at different rate (Internal Revenue Department, Ministry of Finance)

- Bank, Finance Company, General Insurance Company, Petroleum Entities: 30 percent.

- Cigarette, Tobacco, Beer and Alcohol Company: 30 percent
- Special Industries & IT Industries: 20 percent
- Entities engaged in construction & operation of Road, Bridge, Tunnel, Ropeway, Trolley Bus and Tram: 20 percent
- Co-operative Institution registered under Co-operative Act, 2048 (other than co-operatives dealing in except dealers in Exempted Transaction): 20 percent
- Entity wholly engaged in the (BOOT) projects conducted so as to build public infrastructure, own, operate and transfer it to the HMG & in power generation, transmission, or distribution: 20 percent
- Non-resident person Providing Shipping, Air Transport or Telecommunications Services in Nepal: 5 percent
- Private Limited Co., Limited Co., Partnership Firm not specifically mentioned above: 25 percent
- Airline Services having office in and business in Nepal but not operating flights to and within Nepal: 2 percent
- All Export Entities: 20 percent
- Repatriation of income of a Foreign Permanent Establishment of a Non-Resident situated in Nepal: 5 percent

2.5.2 Reduced Tax Rates Corporate Groups Applicable tax rate

- Information Technology industries: 22.5 percent.
- Special Industries and Information Technology Industries providing direct employment to 300 or more Nepalese citizens during a period: 90 percent of applicable rate
- Special Industries providing direct employment to 1200 or more Nepalese citizens during a period: 80 percent of applicable rate.

- Special Industries providing direct employment to more than 100 Nepalese citizens during a period 33 percent of which are women, incapacitated and dalits: 80 percent of applicable rate.
- Special Industries operating in very undeveloped area: 50 percent of applicable rate.
- Special Industries operating in undeveloped area: 70 percent of applicable rate.
- Special Industries operating in underdeveloped area: 75 percent of applicable rate.
- Industries established in Special Economic Zone of mountain district as specified by the government and hilly district: 0 percent for 10 years & 50 percent thereafter.
- Industries established in Special Economic Zone of other areas: 0 percent for 5 years and 50 percent thereafter (In case of dividend of such industries, dividend tax is exempt for first five years of operation and 50 percent concession is provided for dividend tax in next three years)
- Income from foreign technology, management fee and royalty earned by foreign investor from industries established in special economic zone: 50 percent of applicable rate.
- Industries established in remote areas: 0 percent for 10 years.
- Information Technology based industries established at prescribed Information Technology Park: 75 percent of Normal Rate.
- Licensed Industries engaged in production and distribution of electricity, if the production and distribution is completed by the end of Chaitra 2075: 100 percent exemption for first 7 years, 50 percent for next 3 years.

2.5.3 Carry Forward of Loss

- Carry Forward of Loss from Business and Investment can be made up to 7 years.
- Carry Forward of Loss can be made up to 12 years in case of Projects building, operating & transferring public infrastructure to the Nepal Government, Projects building Electricity Production House, generating & transmitting electricity and entities dealing in petroleum products under Nepal Petroleum Act, 2040.
- Loss incurred in business or investment where assesses enjoys full / partial tax exemption cannot be carried forward.

2.5.4 Penalty for Non-Filing of Income Tax Return on Time

- Non-Filing of Estimated Income Tax Return Income u/s 95 within due date shall attract penalty of Rs. 2000 per Return.
- Non-Filing of Income Tax Return Income u/s 96 within due date shall attract penalty of @ 0.10 percent of Annual Turnover or Rs. 100 per month whichever is higher.

2.5.5 Tax Concession and Rebates

- 10 Years Tax Holiday from date of operation and 50 percent Tax Rebate thereafter to industries established in Special Economic Zone (SEZ) of Himalayan Districts and other prescribed Hilly District.
- 5 Years Tax Holiday from date of operation and 50 percent Tax Rebate thereafter to industries established in other Special Economic Zone (SEZ).
- 100 percent Rebate for first 5 Years from date of operation and then 50 percent Rebate for next 3 Years on dividend distributed by industries established in Special Economic Zone (SEZ).

- 50 percent Rebate on Income Tax on income from Foreign Technology or Management Consultancy or Royalty earned by foreign investors of industry established in SEZ.
- 10 Years Tax Holiday from date of operation to industries established in remote areas.
- 25 percent Tax Rebate to IT Industries established in prescribed Information Technology Park.
- Entities having license for Electricity generation, transmission & distribution, if commences generation / generation & transmission / generation & distribution / generation, transmission & distribution of Hydro-electricity commercial manner by Chaitra end, 2075; such entities shall have Tax Holiday for a period of first 7 Years and 50 percent Tax Rebate thereafter for 3 Years, from date of such commencement of generation, transmission & distribution. Such facilities shall also be applicable for Electricity generated from Solar/Wind/Organic Materials. However, entities already having started commercial production of electricity before Shrawan 01, 2066 shall be eligible for facility as prevalent at the time of obtaining license
- 50 percent, 30 percent & 25 percent Rebate on Income Tax for 10 Years including the year of operation to Special Industries operating in Highly Undeveloped, Undeveloped & Under-developed areas respectively.
- 10 percent Rebate on Income Tax to Special Industries and IT Industries which provide direct employment to 300 Nepalese nationals throughout the year. [Earlier, it was 500 Nepalese].
- 20 percent Rebate on Income Tax to Special Industries which provide direct employment to 1200 Nepalese nationals throughout the year.

- 20 percent Rebate on Income Tax to Special Industries which provide direct employment to 100 Nepalese nationals including 33 percent women, dalits (the downtrodden) or the handicapped, throughout the year.

(Sources: Internal Revenue Department, Ministry of Finance)

2.6 The Characteristics of Nepal's Tax & Its structure

The main tax categories in Nepal are income taxes, VAT, excises and custom duties. Table 1 describes the tax regime in more detail, listing for each major tax the base, rate, and any exemptions or deductions.

i) The corporate income tax and remuneration tax are the main direct taxes. The corporate income tax is generally flat, with various rebates and exemptions offered. The remuneration tax is progressive, with three rates between 15 and 35 percent. Beginning FY 2009/10 a small part of the remuneration tax, labeled social security tax, goes towards a social security fund. There is a fixed presumptive tax in place for the smallest firms. There are also taxes on investment profits and interest.

ii) The main indirect taxes are VAT and excises. The VAT was introduced in 1997 at a rate of 10 percent. The current rate is at 13 percent, with various exemptions and lower rates for certain goods and services. Ad-valorem and specific rates excises are in place for various goods (alcohol, vehicles etc.)

iii) Custom duties are also a major source of revenue, despite the gradual tariff liberalization in recent years. There are six import duty slabs between 5 and 80 percent. Again, various full or partial exemptions apply, as well as lower duties for South Asian Association for Regional Cooperation (SAARC) countries. There are also export duties, mainly on wood products, with modicum fees on other products imposed for recording purposes only.

iv) Lastly, there are several other taxes such as vehicle tax, education service tax, and house and land registration fees.

Table 2.1

Tax Base Tax Rates Exemptions and Deductions

		Tax Base	Tax Rates	Exemptions and Deductions
Direct Tax				
Payable by corporations and other enterprises	Payable by corporations and other enterprises	private and public companies, government corporations, personal or sole-trading firms, other institutions	main rate: 25%	Social, religious, educational and charitable institutions, amateur sporting associations, political parties and local government institutions are exempt. Agriculture and rural cooperation activities are also exempt.
			personal and sole-trading firms taxes based on PIT rate schedule	Special industries (under Industrial Enterprise Act (1992), except for those producing tobacco or alcohol), cooperatives and infrastructure industries are taxed at 20%. For companies established in remote areas, tax rebates of between 25-50 percent apply.
			banks and financial institutions, producers of petroleum or high alcoholic goods taxed at 30%	Export income of companies is taxed at 20% and export income of personal and sole-trading firms are taxed at 15%.
				Companies in Special Economic Zones (such as those established by foreign investors, hydropower production, distribution and transmission, infrastructure and construction, IT etc.) benefit from various rebates. Also, in FY 2010/11 various incentives were introduced to encourage companies to enlist in the stock market or

				mergers.
	Presumptive Income Tax	companies or firms with turnover below 2 mill Rs or income below 200,000 Rs	fixed amount at 3,500 Rs in metropolitan and sub-metropolitan areas, 2,000 Rs in municipalities and 1,250 Rs in all other areas	None
Payable by Individuals	Remuneration tax	resident employees of any entity or trading firm	Income up to Rs 160,000 is exempt. Income between Rs 160,000 and Rs 260,000 is taxed at 15%, between Rs 260,001 and Rs 2,500,000 at 25% and income above Rs 2,500,001 at 35%.	Deductions offered for retirement contributions, pension income, insurance premium, medical expenses, disabled persons, women. Allowances offered for people in remote areas and those working in the foreign service. The first 1% collected goes towards the Social Security Fund (beginning in FY 2009/10).
Other direct taxes	Tax on investment Income	income from lease, rent, interest, capital gain, dividends or other income	5%-15%	None
	Windfall Gain Tax	gains from promotional activities, lotteries, gifts, prizes, tips	25%	None
	Vehicle tax	yearly tax on ownership of	Charge depending on the type of	

		vehicles	vehicle	
Indirect taxes				
Taxes on goods and services	VAT		13%	Exports are zero-rated. The following goods are exempt: basic agricultural and animal products, agricultural inputs (seeds, fertilizers etc.), basic need goods and services (such as water, fuel wood, coal, kerosene and salt), education (books, newspapers), sports, culture (painting, carving, handicrafts), healthcare, public transportation (including air transport), personal or professional services (artists, writers, designers, translators), gold, silver, raw wool, woolen yarn, cotton, electricity, purchase and renting of land and building (except for by hotels etc.).
	Excises	duties on production, distribution and import of certain products	specific rates (molasses, nicotinic items, alcoholic drinks, bricks etc.) rates (5-10% on common goods, 30-50% on vehicles)	ambulances, electric vehicles, local production of marbles, personal accessories imported free of custom duties
Taxes on international trade	Import Custom Duties	transaction value of imported goods, including freight, insurance and other such costs	6 slabs between 5% and 80%	Full or partial exemption for imports on projects operated under foreign loan or grant. Exemptions for goods imported by the government, Ministry of Defense or the Army. Crude petroleum oil, unprocessed mineral products, ores, fertilizer, certain health supplies, certain wood, wool and animal hairs are

			exempt.
			Exemptions for imports by companies in the Special Economic Zones.
			1 % duty is collected on aircraft, irrigation machinery, mustard and rape seeds, pashmina yarn, etc.
			Partial exemptions for fibers for carpet industry, machinery for mill industry, medicines, air conditioner, cotton yarn and fabrics, gold, silver, ink and printing industry, certain imports for transport and tourism industries.
Export Duties		70%, 200%	Applied mainly to wood products. Modicum fees on certain agricultural products, minerals, granite, sand, pebble exports imposed for recording purposes only.
			Sales of goods to companies in the Special Economic Zones are treated as exports.
			Export bans are in place on sand and gravel (since March 2010).

Other taxes Health service tax

Other taxes	health services provided by institutions that are not	
Health service tax	government sponsored or community based	
Education service tax	education services provided by private institutions	5%
Property taxes	administered by local governments	1%

Sources: Internal Revenue Department, Department of Customs, Ministry of Finance.

2.7 Income Tax Evasion in Nepal

Tax evasion simply means avoiding of tax by adopting dishonest means. All methods by which tax liability is illegally avoided are termed as tax evasion. Tax evasion is an unethical, illegal and uneconomic way of reducing tax liability. Reasons for tax evasion can be attributed to various tax and non-tax factors. Tax evasion is thus an illegal way of minimizing tax liability. It is an illegal practice under the prevailing act. Tax evasion is a more serious problem in developing countries than in developed countries. It is done through different ways like non-reporting income. Under reporting of income, making fraudulent charges in account books, maintaining multiple sets of accounts, operating business transaction under different names, opening bank account in personal name, over reporting of expenses, fragmentation of income, transfer pricing etc. tax evasion is unethical illegal and uneconomic activity of not paying tax is against moral ethics.

It is illegal because the law does not permit to evade the tax. In the same way, it is uneconomic because it promotes black money i.e. underground economy in a country. Such types of activities do not promote healthy economy in a country. Basically, the reason of tax evasion can be divided into two categories i.e. non-tax factor and tax factor. Non-tax factors include educational background price policies of the government rules and regulation, public sector salaries, government's expenditure policy and other. Tax factors include tax rate, tax base, tax structure, penalty system, probability of detection, magnitude of the strictness of penalty and possibility of applying penalty if evasion is detected.

Mainly, tax factors are more concerned with the tax evasion on income from legal activities whereas non-tax factors are related with illegal activities. Basically, there are three types of effects of tax evasion in the economy i.e. loss of revenue to the state, redistribution of income that affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies. Evasion of income tax is also associated with the evasion of sales tax, excise duty, customs duty and so on.

Since the government imposes higher tax rate to fulfill the growing need of the revenue, it is the honest taxpayers the really bear the burden of tax. Income tax evasion has been paralyzed all over the world, whether it is developed or underdeveloped countries.

But the people of the underdeveloped countries have high practice towards tax evasion. But income tax evasion should be controlled effectively because it has serious affects to the economy. Income tax evasion affects negatively to the economic position as well as the social status of a country. If income tax evasion is not controlled; Nepal can never solve its problems of resource gap either it increase its tax rates or applies new sources of tax (Subedi 1982: 17).

2.7.1 Ways of Tax Evasion

The important ways as methods used in tax evasion in Nepal are as follows (Agrawal 1980: 124).

- Concealment of a source of income.
- Concealment of income within a source of income.
- Misrepresentation of facts and information.
- Classification of accounts and records (rigging of invoices, fictitious payments, payments of bill twice etc.)
- Incorrect claims for allowances and deduction.
- Profit shifting, cost shifting, or price transfer
- Artificial contract for commission, discount etc.
- Over and under invoicing
- Over statement of expenses
- Fraudulent transaction
- Fictitious transactions.
- Non-reporting of income earned from illegal activities like smuggling, corrupt business practice etc.
- Maintenance of multiple sets of books of accounts and submitting the manipulated set for taxation purpose

- Deliberate failure to maintain accounts and records and get the tax assessment done on a 'committee' or best judgment basis etc.

The committee on fiscal affairs of the organization for economic cooperation and development (OECD) has observed that within tax evasion a distinction is sometime made between the less serious offence, such as false declarations, take invoice etc. (OECD 1980: 5).

2.7.2 Causes of Tax Evasion

The main causes for widespread evasion of income tax in Nepal can be listed as follows (Agrawal, 1980: 126).

- Corruption by tax officials
- Widespread illegal business activities
- Reluctance of taxpayers to maintain accounts
- Higher marginal rates of taxes
- Ineffective use of fines and penalties
- Inadequate auditing and investigation
- Difficulties in locating taxpayers
- Lack of support from public
- Poor development of corporate sector
- Poor development of intermediaries
- Unnecessary interference by influential person
- Unlimited convertibility of Indian currency
- Prevalence of scheduler taxes on income

2.8 Review of Related Materials

Various books and dissertation have been reviewed for performing this research study, while reviewing the books it is found that most of the books are syllabus oriented. Some of them are extremely based on campus syllabus. Since the period of 1959/60, many individuals and institutions have made their appreciable efforts on study of vivid

aspects of corporate income tax / income tax system of Nepal. Many books, articles, research paper, reports, dissertations reference materials etc. have been published in this area. In the course of the study, various books, articles, dissertations, journals and other reference materials were reviewed. Some useful and important are mentioned below:

2.8.1 Review of Related Books

Khadka (1994), has written a book entitled "Nepalese taxation, a path for reform". The book deals with both national and international taxes. The writer had detail describe the scenario of Nepalese tax system from origin of income tax, adoption of Quasi-global, or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, more from joint taxation to individual expenses, experiment with an advanced tax on impacts and the existing structure, commodity taxes and property taxes. The book had not been directly focuses on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Tiwari (2000), has presented the books "Income Tax System in Nepal". He stated the detail information about tax acts and regulations. He has defined the definition of tax, historical aspects of the income tax, tax assessment procedure under different heading etc.

Dhakal (2001), has described the provisions under income tax act in details and definition of tax, income tax assessment under different headings taxpayers and other provision relating to the income tax assessment in his book named "Income tax, house compound tax law, and practice". This book was based on income tax act, 1974. This book is very much useful for getting knowledge about history of taxation and practices under the previous acts.

Mallik (2003), had written a book entitled, "Nepal Ko Adhunik Aayakar Pranali". This book especially deals with the thorough analysis of income tax act, 2001 with examples. He had written about the development of existing income tax and need and importance of income tax system of Nepal. The new provision made by income tax

system act 2001, about tax base, computation of income tax exempt amount, deduction allowable, accounting of tax, capital gain, retirement saving and tax, dividend tax, international taxation and tax auditing have been clarified precisely in this book.

Aryal & Paudel (2004), had written a book entitled, "Taxation in Nepal". They had explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.S. It has been divided into three parts. In the first part of book introduction and development of income tax, capital and revenue nature expenses and income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively.

Amatya, Pokharel & Dahal (2004), has published a book named "Taxation in Nepal". They have described about the legal provision relating to Income Tax Act 2058 with numerical examples. Their book is very useful to know the general information of corporate income tax and it is also informative and analytical. This is extremely based on the syllabus of B.B.S. Third year and M.B.S. Second year as prescribed by Tribhuvan University.

Dahal (2008), has written a book named Income Tax & Value Added Tax. He has mainly described the changes in Income Tax Act & Vat from the beginning to date in Nepal. He has collected 900 import notes, Public Circulars, Advance ruling, information, Direction, Directives and circulars. This book features a balanced combination of theory and problems.

Agrawal (2009), has written a book named Income Tax. He has mainly described the legal provision relating to income tax and amendments as per the Finance Act, 2065 have been incorporated. The valuable contents of interpretations, booklets, public circulars, etc issued by IRD are suitably incorporated in this book. The interpretations given by Courts, Ministry of Finance, Audit Core Group, etc with regard to income tax are also made part of this Book.

Bhattarai & Koirala (2011), has written a book named Taxation in Nepal. A simplified version of Income tax act 2058 and Value Added Tax Act, 2052 are given in summarized form. They have mainly described the legal provision relating to income tax and returns of income and assessment.

Bhattarai & Koirala (2011), has written a book named Taxation in Nepal. They have described about the legal provision relating to Income Tax Act 2058 with numerical examples. Their book is very useful to know the general information of income tax and self assessment of tax and return of income value for the individual if self assessed and it is also informative and analytical.

2.8.2 Review of Reports, Articles and Journals

Agrawal (1984), presented the research report entitled, "Direction of Tax Reforms in Nepal" in June 1984. This was presented to Ministry of Finance. In the research work, he analyzed some aspect of direct tax etc. He found that the major problems of income tax in Nepal were that tax officers did not like to make assessment based on income tax purpose. Capital gains should be included in income for the purpose of income tax. This will not only generate additional revenue but will also discourage speculative and unproductive investment. He suggested that political and undesirable pressures in tax administration should be minimized, effective taxpayer information system should be developed, allowed to deduction expenses for two children etc.

Kayastha (1993), wrote an article in "Rajaswa" entitled "Problems and Prospects of Resources Mobilization Through Direct Taxation in Nepal." In this article he has shown that Nepalese tax structure has heavily relied upon indirect taxes and non-tax revenues with the growth in comparison to others taxes, but the trends in Nepal is still not encouraging. He has stated that there is almost need for certain tax measures and widening of the tax bases. He has pointed out the following factors responsible for weak revenue administration in Nepal.

- Lack of policies with a clear directions and consistency in a long run prospective.
- Lack of information and records
- Lack of trained staff and heavy dependency on non-technical staff
- Lack of proper accounting and auditing system in general for business firms
- Lack of monitoring and prevalence of large informal sector both in industry and in trade

Dahal (1995), presented and submitted a report entitled, "Review of Tax System" to MOF, Government of Nepal covered the various aspects of tax system at that time. Narrow tax base, low tax elasticity, higher burden of indirect tax to direct tax, lack of voluntary compliance, leakage etc. were the major defect of taxation identified by this report. This study stressed on the narrow tax base. The exemption of income from agriculture sector, which contributed 43 percent of total GDP, was marked as a main reason of narrow base, including agriculture sector, income from domestic industries, social sector, and electricity sector that contributed 52 percent was exempted from income tax and only large industries, mines, construction, trade, hotel and restaurant that contributed 48 percent income to GDP were under income tax. All these provisions made the tax base are very low. The tax rates were unnecessarily high.

Review of Revenue Consultation Committee (2001), MoF, Government of Nepal report had studied the overall taxation situation in-depth. This report suggested to widen the income tax base by including all kinds of taxpayers and income and to find out the taxpayers of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investment. This report recommended for written communication between taxpayers and tax administration rather than the informal relation. It also suggested to implement account based VAT more effectively. Self assessment of income tax was fully recommended. It suggested bringin gall potential taxpayers into tax net to widen the tax coverage including agriculture, electricity and other sectors to increase voluntary compliance this report highly emphasized to simplify the tax policy.

Pant (2004), has written an article entitled "Problems in Tax Administration and their Remedies" published in journal of finance and development. "Rajaswa" 2004, April vol. 1. He has comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problems and challenges, in tax administration. He had maintained in his article were, showing limited amount of transaction, showing how selling price, lack of issuing and taking bills, lack of showing the real factory cost, legal ambiguity and complexity in implementation and lack of coordination between inland revenue department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were statistical and information system should be property managed, fixed norms and standards should be made compulsory, coordination between inland revenue office with various entities of Government of Nepal, revenue investment department and its related units should play the important role and auditing of tax should be widened etc.

CESIFO (2009), in its working paper 'Role of the corporate Income tax' has analyzed the effectiveness of corporate income tax as an automatic stabilizer. It employs a unique firm level dataset German manufacturers combining financial statement with firm specified information about credit market restriction. The results show that approximately 20 percent of all firms report both positive taxable income and capital market restriction. Taking account of income tax rates and the size differences of the firms, we find demand stabilization through the corporate income tax amount to about 8 percent of an initial shock to gross revenue. This stabilization affects various business cycles and tends to increases during cyclical downturns.

2.8.3 Review of Thesis and Dissertation

Shrestha (1984), wrote a dissertation entitled, "Income Tax in Nepal." She has described the historical background of income tax in Nepal and the role of income tax in Nepalese taxes structure. She has studied the problems of income tax in Nepal. She has

found that revenue from the income tax is small due to tax evasion, which shows that income tax policy is not well operated and the collective revenue is low. To increase the revenue from taxation, per capita income should be increased. Growing per capita per real income provides a handed to collect larger tax revenue. To increase income tax revenue, there must be efficient administration; she has suggested that the practice of taxation must be checked, if the taxes are to contribute to the economic growth of Nepal .

Regmi (1986), wrote a dissertation entitled "The Role of Income tax in Nepal." He has discussed the trend and contribution of income tax in the developmental efforts of Nepalese government. He has suggested checking income tax evasion because it has been a great problem in income tax collection of Nepal. According to him, if the income tax evasion is checked properly, income tax can contribute significantly role to the economic growth of Nepal.

Shakya (1995), presented a dissertation entitled, "Income Tax in Tax Structure of Nepal." In his study, he has endeavored to examine the pattern of existing income tax structure of Nepal with view on its collection, mobilization in development perspective. He has pointed out some factors responsible for limiting Nepal's taxable capacity. There are low per capita income, extensive subsistence economy relatively closed economy, political and social factors, weak expert position, administrative and enforcement problems of tax etc. He has suggested for honest and efficient administration, punishment to tax evaders, significant method of taxation and assessment of small taxpayers on door to door basis and encouragement of self-assessment tax system .

Kandel (2000), in his Ph. D thesis entitled "Corporate Tax System & Investment Behavior in Nepal" has tried to find out the problem relating to corporate tax which have blocked the development of private investment. The main objective of the study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain ,divided tax & interest tax etc. based on their impact tax burden. He has show relationship of private investments with average effective tax rate

(AFTER), marginal effective tax rate (METR) and tax incentive in Nepal. He has found that the METR for debt financed project are almost negative (i.e.-1.7%) and positive for equity finance and debt equity ratio project by 27% and 19% respective. He has also found that the impact of inflation to the METR. According to him the statutory tax rate deduction had impact private investment by 60 to 20 percent. He has concluded that the statutory tax rate was in modern level under all financial options: debt, mix equity i.e. it was not much distort.

Pradhan (2001), wrote a thesis entitled, "Contribution of Income Tax from Public Enterprises to Public Revenue of Nepal with reference to Nepal Telecommunication Corporation." She has analyzed the contribution of income tax from public enterprises, to public revenue of Nepal, examined the revenue collection, from public enterprise, shown the contribution of income tax in total tax and total income tax revenue of Nepal, and analyzed the effectiveness of income revenue collection from NTC. She has also recommended possible measures to increase the present status. She has found that the contribution of income tax from PEP in Nepal is not satisfactory due to poor achievement, weakness in government's economic policy and deficiency in legislation. Existing corporation tax rate has been found suitable. Self-assessment of tax is more appropriate.

Gautam (2004), has described about contribution of income tax to national revenue of Nepal. This study had mainly focused about conceptual framework, legal provision and structure of income tax. This study had conducted by using an empirical investigation about various aspects of income tax in Nepal. He has taken 60 persons as a sample as tax experts, tax payers, and tax administrators. The result of the study showed that the contribution of direct and indirect tax revenue were 20.63% and 79.40% respectively in 2002/03. Income tax revenue has occupied third position on the basis of mean contribution other sources of revenue, the contribution of income tax to total revenue was 8.84%. It may enhance the revenue of government, promote to distribute justice and encourage private sector investment. Nepalese government expenditure is

increasing at the faster rate than the increase in revenue, the resource gap has existed in Nepalese economy and it is in increasing trend, tax/GDP ration of Nepal is found satisfactory, the exemption limit is not satisfactory. This study had suggested for a sound and effective income tax system. They were establishment, promotion and reward system to efficient and honest tax personnel, increase public participation to minimize the tax evasion, strict action against corruption, income tax, rules and regulation should be made at higher rate for income tax evaders, more deduction should be provided for export promote and separate income tax department should be established.

Ghimire (2005) has described Income tax self assessment procedure in Nepal under Income tax Act 2058. He has mainly focused on Conceptual framework, studies in self assessment, provisions related to income tax Act. This study has conducted an empirical investigation about various aspects of Income tax in Nepal and has taken 60 persons as a sample as tax experts, tax payers and tax administrators. This study has found income tax as suitable means of raising government revenue. Public awareness program is necessary to increase tax consciousness and raising the government revenue. Self tax assessment is a suitable means while assessing the income tax in Nepal. Lack of proper accounting system, lack of knowledge about self assessment procedure, lack of correct auditing system is the weakness of self assessment system.

Mr. Yadav (2009), submitted a MBS thesis entitle “A Study on Income Tax contribution to Government Revenue in Nepal”, described the structure of revenue collection of income tax in Nepal, evaluation of the ratio of income tax revenue to GDP, Total revenue and direct tax revenue, and suggested about exemption limit of income tax in Nepal. This study had recommend on the following ways: Tax payers should be highly literate by conduction seminar, workshop and interaction, the income tax assessment procedure must be improved by reducing assessment delay reducing the best judgment to taxpayers and creation the confidence between taxpayers and tax officers.

In this way, various books, thesis, reports and articles published in journals and newspaper are reviewed while preparing this thesis. Income tax can play greater role for strengthening the economy. They explained about the trend, structure, role, rules and acts regarding income tax of Nepal. Most of the books are related with income tax provision and laws and extremely based on the syllabus of bachelors' level. Most of the research studies have identified the major problems of Nepalese income tax system as tax evasion at high level and infective tax administration. If administration aspects of Nepalese income tax system can be improved the problem of tax evasion may be controlled automatically.

2.9 Research Gap

Nepalese income taxation has been playing significant role in government` revenue Nepalese corporate sector is small and stagnant in nature & private secretor and even government sector is poor. However contribution of income tax from corporate sector plays vital role in Nepalese economy. But the researcher found no more systematic study done in the contribution of corporate income tax to government revenue in Nepal; it is focused on the Trend and pattern of corporate income tax & it`s relationship to total revenue in Nepal. So this study has been done to fill this research gap.

CHAPTER- THREE

RESEARCH METHODOLOGY

3.1 Introduction

It is the way to solve systematically about the research problems. It is that section of research which is designed to explain to the reader precisely how the researchers intend to set about findings answer to the research question. The methodology describe the research design used, population and sample, data collection techniques, variables and measures, data analysis tools and limitations of methodology.

3.2 Research Design

This study uses descriptive as well analytical research design. Corporate income tax system is based on various rules, regulation and acts which are always setting on different country's own social economic infrastructure. Similarly the major purpose of this study is to describe the status or position of corporate tax. So, descriptive research designs are used as it includes fact & finding. For analyzing and evaluating the contribution as well as performance of income tax analytical research design.

3.3 Data Collection Procedure

Most of the data used in this study is secondary in nature data. Secondary data are obtained from the various sources.

3.4 Nature and Sources of Data

Most of the data used in this study is secondary in nature. In order to achieve the real and fact full result all possible and useful data as far available have been collected. Secondary data are obtained from the various sources, specified as below:

1. Annual Report and Published Documents of NRB.
2. Quarterly Economic Bulletin 2006/07 to 2011/12r of Nepal Rastra Bank

3. Report and records of Department of taxation, MOF Nepal.
4. Budget Speech and Economic surveys of 2006/07 to 2011/12, MOF Nepal.
5. Books related to income tax & Public Finance.
6. Annual report of Inland Revenue Department from 2006/07 to 2011/12.
7. Published Article & Unpublished Dissertation.

3.5 Procedure of Processing and Analysis of Data

After the classification, coding and editing of data it was presented in to tabulate from with separate format systematically in order to achieve the desire objectives. It has been presented into various tables, figures, graphs according to the subjects in order. Available and collected data has been presented and analyzed in descriptive way with the help of sample statistical tools, such as percentage, average, correlation chi-square test for hypothesis etc.

They are analyzed using suitable statistical tools. The statistical tools used for the analysis are as follows:

- Simple percentage
- Simple average
- Graphs, Charts & Diagrams
- Trend Line Equation
- Calculation Process of correlation coefficient

These are the basis for drawing the appropriate conclusion for this project.

CHAPTER- FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

More and more financial resources are needed to meet the increasing expenditure of development and regular activities of the government emphasis has been given to the fulfillment of financial needs from government Revenue. But it does not mean there are no other sources to meet such needs. Because of some reasons, the tax revenue is emphasized as the objective of revenue collection finance not only growing expenditure, but also to achieve other goals, like social justice, balance regional development and distributive motives etc. The government revenue collection from different sources like as tax revenue. Tax revenue is includes various direct tax as well as indirect tax. Direct tax included income tax, property tax, house , building tax, Remuneration tax & other tax. An Indirect tax includes customs, excise duties, value added tax and others tax.

For this purpose the direct tax, income tax is assumed as a best weapon. Income tax also considers 'ability to pay.' Hence corporate income tax is taken as the effective instrument for development in future, stability and equity in developing countries. Nepal is developing countries, there are more chances for develop corporate house.

However, the share of income tax to GDP is very insignificant in Nepal. It contributed only 0.96 percent to GDP in fiscal year 1999/00. The number of taxpayer in the total population in 1999/00 is also very low. In fiscal year 1999/00 less than 1 percent of total population has paid the income tax. If we compare this figure to developed country, it is very low. In USA 30 to 40 percent people are under the portfolio of income tax and UK 30 percent of GDP is contributed by direct tax.

4.1.1 Structure of Nepalese government Revenue.

It is clear that there are two main sources of government revenue that is (a) Tax revenue and (b) Non-tax revenue. Tax revenue is a composition of custom duty, excise duty, sales tax (VAT), income tax, land revenue and registration and other taxes. On the other hand, non-tax revenue is a composition of revenue from forest, public utilities, interest and dividend, civil administration and miscellaneous. In government revenue structure of Nepal, tax revenue occupies the most important place.

As stated earlier, tax may be the major source of internal revenue and income tax has to play an important role in tax structure. Taking it into consideration, the income tax system was introduced in Nepal in 1959 for the first time. In the very beginning, the share of income tax in tax structure was very low. In 1962/63 its share was only 1.54 percent which is amounted to about 200 thousand. The tables or charts presented below show that collection of income tax has been increasing regularly in Nepal. But from the study of the tax, it is known that performance of income taxation in Nepal is not satisfactory. Nepal must apply great effort for the development of performance in regard to income taxation so as to increase the internal resources.

Table-4.1**Structure of Nepalese Government Revenue.**

(Rs. In Million)

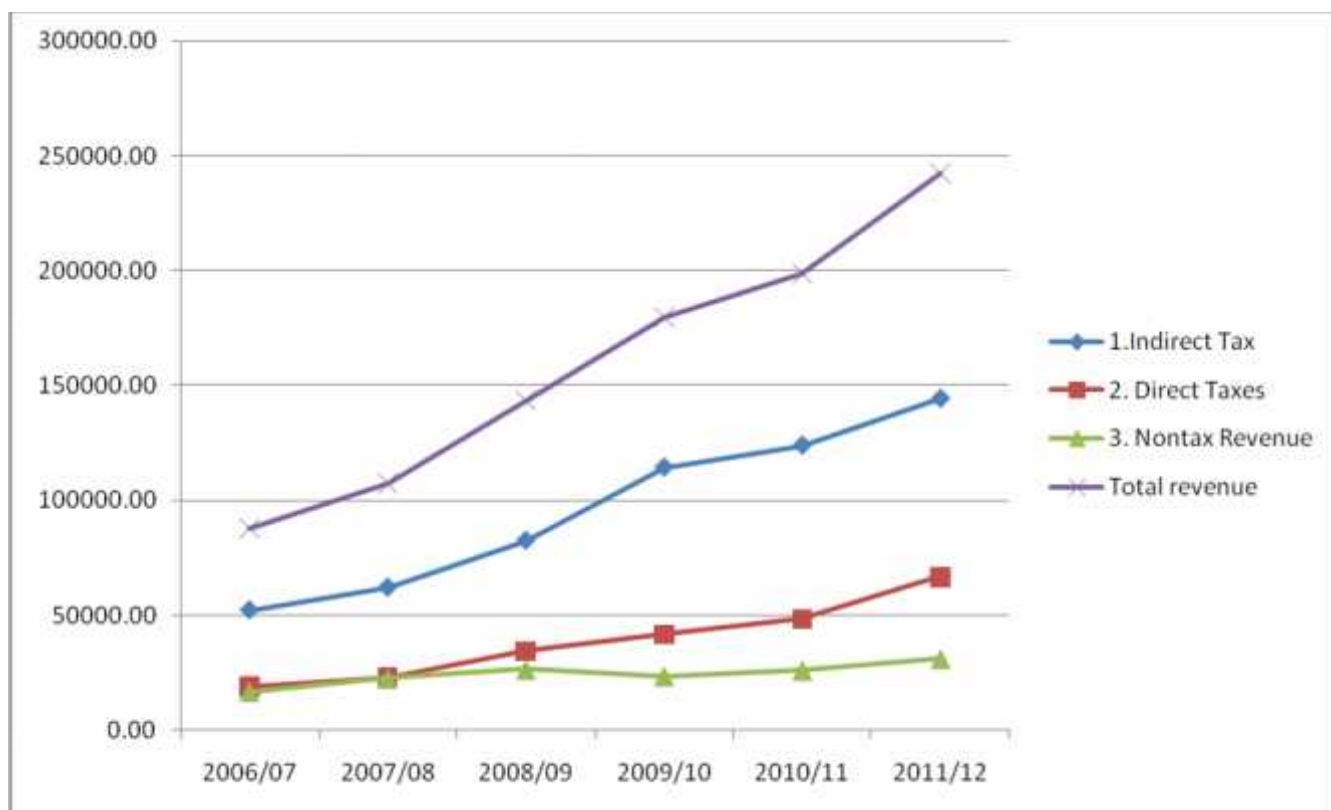
FY Revenue	2006/07	%	2007/08	%	2008/09	%	2009/10	%	2010/11	%	2011/12	%
1. Indirect Tax	52187.60	59.44	62076.40	57.68	82499.20	57.50	114363.60	63.68	123909.90	62.37	144320.90	59.56
a. Customs	16699.00	19.02	21062.60	19.57	26622.50	18.56	35151.60	19.57	35708.60	17.98	43395.35	17.91
b. Value Add Tax	26145.00	29.78	29784.60	27.68	39604.20	27.60	54896.50	30.57	61659.10	31.04	70669.35	29.16
c. Excise	9343.60	10.64	11229.20	10.43	16272.50	11.34	24315.50	13.54	26542.20	13.36	30256.20	12.49
2. Direct Taxes	18979.70	21.62	23070.50	21.44	34552.60	24.08	41760.50	23.25	48641.50	24.49	66905.99	27.61
a. Income Tax	15730.00	17.92	19067.50	17.72	27479.70	19.15	33832.10	18.84	42066.30	21.18	52879.25	21.82
b. House & Building Registration	2238.70	2.55	2933.00	2.73	5248.40	3.66	5510.80	3.07	3552.60	1.79	3555.78	1.47
c. Property Tax	0.00	0.00	0.00	0.00	0.00	0.00		0.00		0.00	31.73	0.01
d. Vehicle Tax	1011.00	1.15	1070.00	0.99	1824.50	1.27	2417.60	1.35	3022.60	1.52	10439.23	4.31
3. Nontax Revenue	16634.10	18.95	22475.70	20.88	26422.70	18.42	23456.60	13.06	26104.40	13.14	31093.50	12.83
a. Duties & fees	5216.40	5.94	5946.00	5.52	9541.40	6.65	8447.60	4.70	9693.30	4.88	6913.68	2.85
b. fines & forfeiture	251.30	0.29	235.90	0.22	283.80	0.20	366.30	0.20	499.20	0.25	321.10	0.13
c. Public Utilities	1310.40	1.49	1284.40	1.19	1611.00	1.12	1758.10	0.98	1630.10	0.82	4275.12	1.76
d. Dividends	4937.70	5.62	5025.80	4.67	7197.40	5.02	7351.90	4.09	8624.70	4.34	9429.43	3.89
e. Interest	1049.80	1.20	756.90	0.70	1086.60	0.76	447.20	0.25	1190.20	0.60	1750.61	0.72
f. Royalty and Sales	1095.70	1.25	5769.90	5.36	2541.80	1.77	2948.30	1.64	2660.00	1.34	6122.94	2.53
g. Principle Repayments	1025.60	1.17	2680.90	2.49	3530.40	2.46	1953.80	1.09	1445.70	0.73		0.00
h. Miscellaneous income	1747.20	1.99	775.90	0.72	630.30	0.44	183.40	0.10	361.20	0.18	2280.62	0.94
A. Tax Revenue (1+2)	71167.30	81.05	85146.90	79.12	117051.80	81.58	156124.10	86.94	172551.40	86.86	211226.89	87.17
B. Non Tax Revenue	16634.10	18.95	22475.70	20.88	26422.70	18.42	23456.60	13.06	26104.40	13.14	31093.50	12.83
Total revenue	87801.40	100.00	107622.60	100.00	143474.50	100.00	179580.70	100.00	198655.80	100.00	242320.39	100.00

Sources: Quarterly Economic Bulletin 2011/12

Above table (4.1) shows that the government total revenue includes different components like indirect taxes, Direct taxes, Non Taxes. FY 2006/07, 2007/08, 2008/09 2009/10, 2010/11 & 2011/12 total revenue (In million) is 87801, 107623, 14475, 179581,198656 & 242320 respectively. Indirect tax is 52188, 62076, 82499, 114364, 123909 & 144321 respectively. Direct tax is 18980, 23071, 34553, 41761, 48642 & 66906 respectively. Non Tax Revenue is 16634, 22476, 26423, 23457, 26104 & 31094 respectively. Average percentage contribution on government from Indirect Tax, Direct Tax & Non Tax Revenue of Above 6 FY is 60.04 , 23.75 & 16.21 respectively.

Figure 4.1

Trend of Government Revenue



Above figure (4.1) shows that the government total revenue, Indirect Tax, Direct Tax, Non Tax Revenue all are increasing. Here Total Revenue is sum of Indirect tax Direct Tax & Non Tax Revenue. These taxes are increases way so total revenue is shows highly grow way. Also this figure shows non tax revenue is only minimum level increase.

4.2 Structure of Nepalese Income Tax.

The income tax structure of Nepal consists of tax from different sectors. They are income tax from public enterprises, semi public enterprises, private corporate bodies, individual remuneration, business, industries and occupation. They are mainly three parts income from corporate income tax, Remuneration Income & Investment Income & Other Income. Data is collected from Quarterly Economic Bulletin, for 2006/07 to 2010/11 data is old series & for 2011/12 is new series. It's indicate form 2006/07 to 2010/11 data is Remuneration income old series & for 2011/12 Payroll & workforce new series. Tax collected from these sectors is collectively known as income tax revenue. In table (4.2) presents the figure of corporate income tax, Remuneration Income & Investment Income & Other Income during last 6 years. As per the table, corporate income tax covered 73 percent of income tax revenue in average. The contribution ratio of corporate income tax to direct tax is increasing. Similarly, direct tax /total tax ratio is 23.75 percent in average of last 6 years. Corporate Income tax covers 17.66 percent of total revenue ratio FY 2011/12. Corporate Income tax increased by 268.80 percent in average during last 6 years.

Table 4.2
Structure of Nepalese Income Tax

In (Million)

Income Tax Head		Fiscal Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*
Corporate Income Tax	Value	11604.90	13263.20	19646.40	24054.30	28807.20	42798.45
	%	73.80%	69.56%	71.49%	71.10%	68.48%	80.94%
Remuneration Income	Value	2006.80	2452.00	3398.50	4420.00	5863.80	1566.25
	%	12.76%	12.86%	12.37%	13.06%	13.94%	2.96%
Investment Income & Other Income	Value	2112.30	3352.40	4434.80	5357.80	7395.40	8515.27
	%	13.43%	17.58%	16.14%	15.84%	17.58%	16.10%
Total		15724.00	19067.60	27479.70	33832.10	42066.40	52879.97

Sources: Quarterly Economic Bulletin 2011/12

*As per Nepal Rastra Bank Record Government new Series

Above table (4.2) shows that the total revenue was Rs. 15724 in fiscal year 2006/07 and Corporate Income Tax , Remuneration Income, Investment Income& Other Income contributed is 73.80 percent, 12.76 percent & 13.43 percent of income tax revenue in that fiscal year.

In fiscal year 2007/08, Income tax revenue was Rs. 19067.5 Million and Corporate Income Tax , Remuneration Income, Investment Income& Other Income contributed is 69.56 percent, 12.86 percent & 17.58 percent of income tax revenue in that fiscal year.

In fiscal year 2008/09, Income tax revenue was Rs. 27479.7 Million and Corporate Income Tax, Remuneration Income, Investment Income& Other Income contributed is 71.49 percent, 12.37 percent & 16.14 percent of income tax revenue in that fiscal year.

In fiscal year 2009/10, Income tax revenue was Rs. 33832.10 Million and Corporate Income Tax, Remuneration Income, Investment Income& Other Income contributed is 71.10, 13.06 percent & 15.84 percent of income tax revenue in that fiscal year.

In fiscal year 2010/11, Income tax revenue was Rs. 42066.40 Million and Corporate Income Tax, Remuneration Income, Investment Income& Other Income contributed is 64.48 percent, 13.94 percent & 17.58 percent of income tax revenue in that fiscal year.

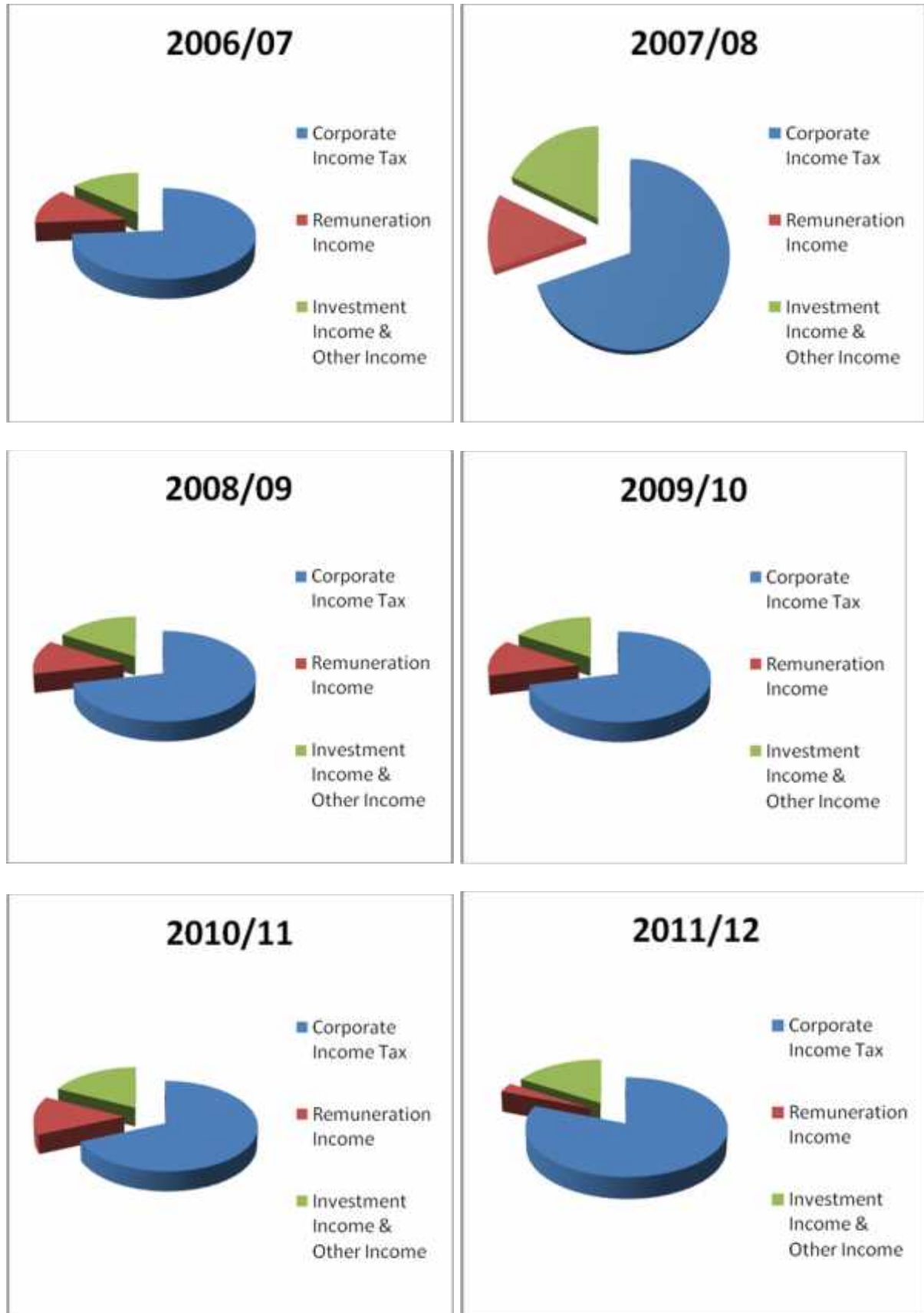
In fiscal year 2011/12, Income tax revenue was Rs. 52879.97 Million and Corporate Income Tax, Remuneration Income, Investment Income& Other Income contributed is 80.94 percent, 2.96 percent & 16.10 percent of income tax revenue in that fiscal year.

Similarly, income tax increased by 3.36 times in the same period i.e. the contribution increased in the fiscal year from Rs. 15724 Million in fiscal year 2006/07 to Rs. 52879 Million in fiscal year 2011/12.

Average contribution income tax to total revenue is 19.44 percent during last six fiscal years.

Figure 4.2

Structure of Income Tax



The above figure we have finding corporate tax contribution in income tax is significant. It size is countable. FY 2006/07, 2007/08, 2008/09 2009/10, 2010/11 & 2011/12 total income tax (In million) is 15730, 19067.5, 27479.7, 33832.1&42066.3 respectively. And contribution is 73.80 percent, 69.56 percent, 71.49 percent 71.10 percent, 68.48 percent & 80.94 percent respectively.

4.3 Contribution of Corporate Income Tax, Income Tax, Direct Tax and Total Tax to GDP.

As Nepal is the lowest taxed nation in the world, the tax GDP ratio is below the average of 20 percent for the developing countries.

According to the table-4.3, corporate tax have been contributing around 3 percent whereas direct tax & total revenue have been contributing less than 5 percent & 15 percent of GDP res. GDP reached Rs. 1418216 Million in fiscal year 2011/12. It increases 2.1 times during last 6 years.

Table-4.3

Contribution of Total Revenue, Income Tax and Corporate Income Tax to GDP

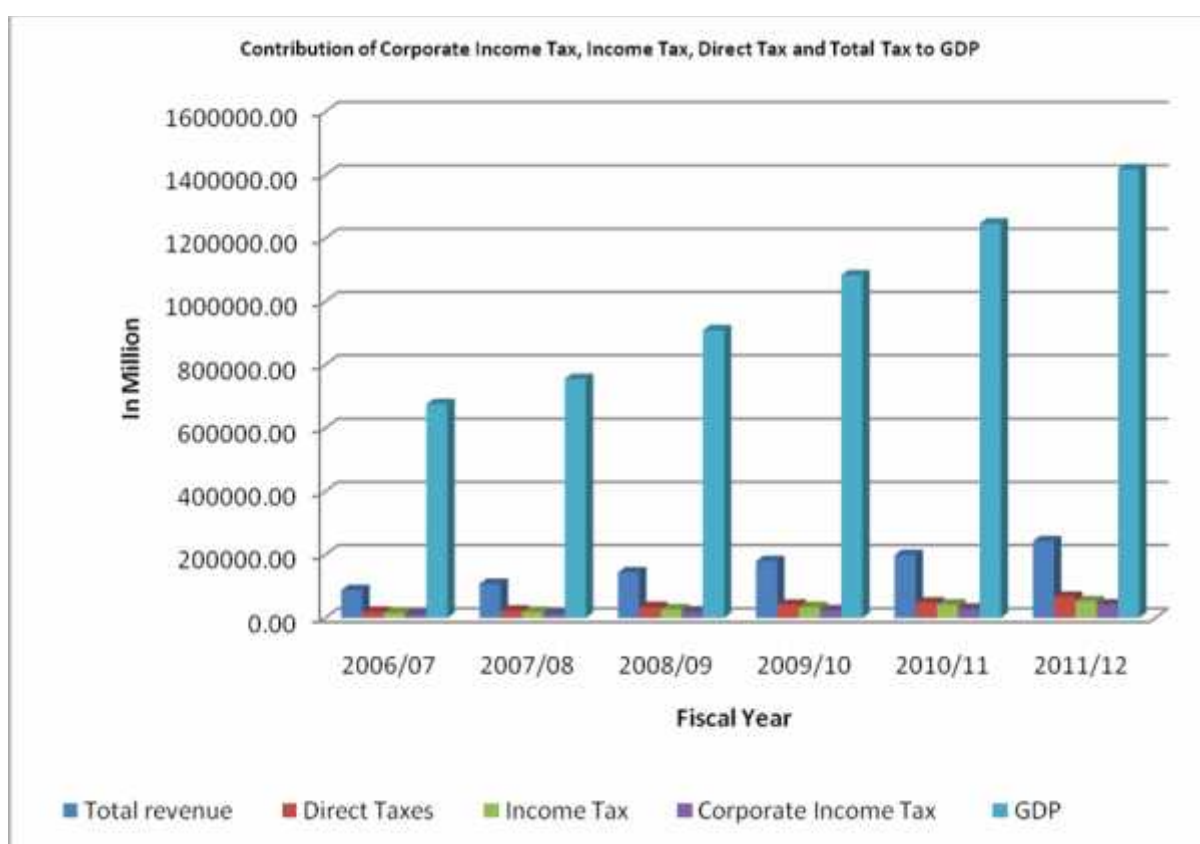
Income Head		Fiscal Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
1. Total revenue	NP		107622.6	143474.5	179580.7		
	R	87801.40	0	0	0	198655.80	242320.39
	%	12.99	14.25	15.77	16.58	15.94	17.09
2. Indirect Tax	NP				114363.6		
	R	52187.60	62076.40	82499.20	0	123909.90	144320.90
	%	7.72	8.22	9.07	10.56	9.94	10.18
3. Direct Taxes	NP						
	R	18979.70	23070.50	34552.60	41760.50	48641.50	66905.99
	%	2.81	3.05	3.80	3.85	3.90	4.72
4. Nontax Revenue	NP						
	R	16634.10	22475.70	26422.70	23456.60	26104.40	31093.50
	%	2.46	2.98	2.91	2.17	2.09	2.19
5. Income Tax	NP						
	R	15730.00	19067.50	27479.70	33832.10	42055.30	52879.25
	%	2.33	2.52	3.02	3.12	3.37	3.73
6. Corporate Income Tax	NP						
	R	11605.00	13263.00	19646.00	24054.00	28807.00	42799.00
	%	1.72	1.76	2.16	2.22	2.31	3.02
GDP		675859.0	755277.0	909528.0	1083415.0	1246423.0	1418216.0
		0	0	0	0	0	0

Source: Economic Survey 2011/12, Ministry of Finance & Quarterly Economic Bulletin

During the same period of time corporate income tax increased 3.68 times and direct tax increased by 3.52 times also total revenue increased by 2.75 times. Table-4.3 shows that total revenue contributes around 17 percent of GDP, which are below then the desired rate of 20 percent.

Figure 4.3

Contribution of Corporate Income Tax, Income Tax, Direct Tax and Total Tax to GDP



The above figure 4.3 shows total revenue, direct tax, income tax, corporate income tax, GDP all are increasing way. Corporate income tax is highest ratio of increment.

4.4 Trend of Total Corporate Tax in Nepal

In the study period, GDP is increased by 2.09 times also other revenue is increases different ratio. This study focuses in corporate income tax, corporate income tax every year is increases, due to different factor like increases volume of sales & profit of corporate houses, increases no of corporate tax payer, Government, IRD officer increase the activity for increase tax.

Corporate income tax is 11605.00, 13263.00, 19646.00, 24054.00 28807.00 42799.00 of FY 2006/07 , 2007/08, 2008/09, 2009/10, 2010/11 & 2011/12 respectively which is contributed at total revenue is 13.21 percent , 12.32 percent 13.69 percent, 13.39, 14.50 & 17.66 percent also contribute at GPD is 1.72 percent, 1.76 percent, 2.16 percent, 2.22 percent, 2.31 percent & 3.02 percent respectively.

Table-4.4.1

Trend of Total Revenue, Income Tax and Corporate Income Tax

Income Head		Fiscal Year					
		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
1. Total revenue	NPR	87801.40	107622.60	143474.50	179580.70	198655.80	242320.39
2 .Indirect Tax	NPR	52187.60	62076.40	82499.20	114363.60	123909.90	144320.90
3. Direct Taxes	NPR	18979.70	23070.50	34552.60	41760.50	48641.50	66905.99
4. Nontax Revenue	NPR	16634.10	22475.70	26422.70	23456.60	26104.40	31093.50
5. Income Tax	NPR	15730.00	19067.50	27479.70	33832.10	42055.30	52879.25
6. Corporate Income Tax	NPR	11605.00	13263.00	19646.00	24054.00	28807.00	42799.00

Source: Economic Survey 2011/12, Ministry of Finance & Quarterly Economic Bulletin

Figure 4.4.1

Trend of Total Revenue

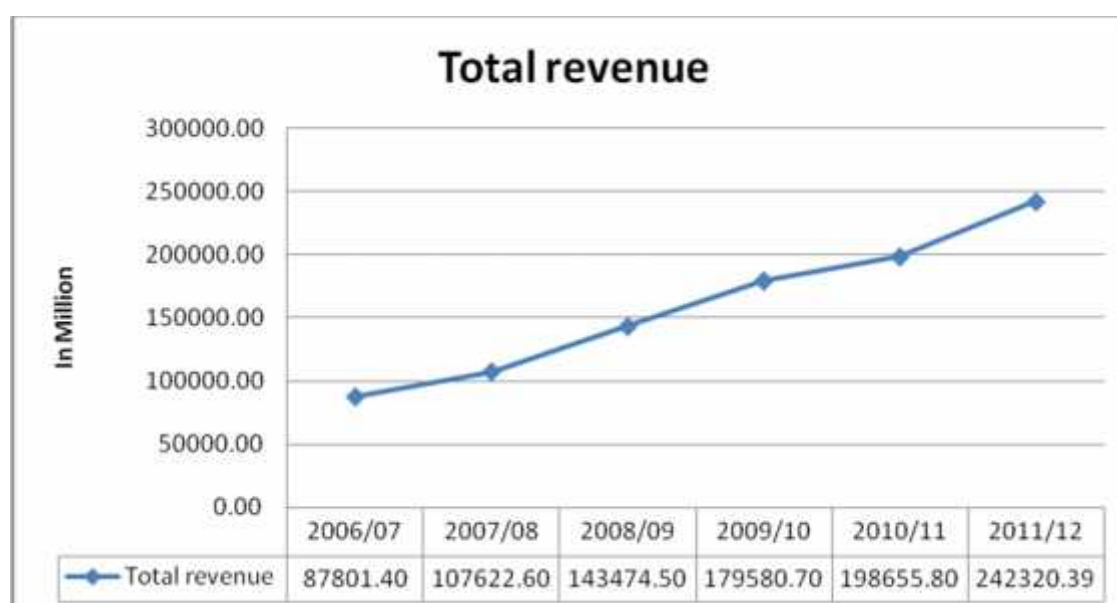


Figure 4.4.2

Trend of Direct Tax and Total Revenue

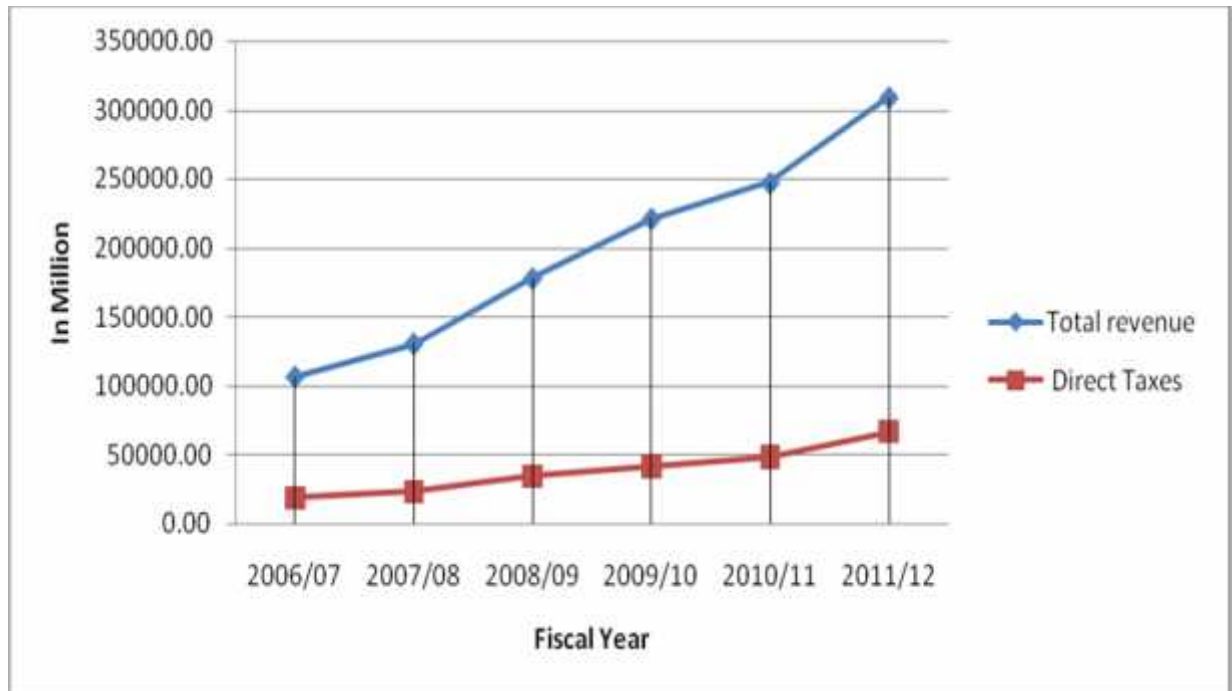


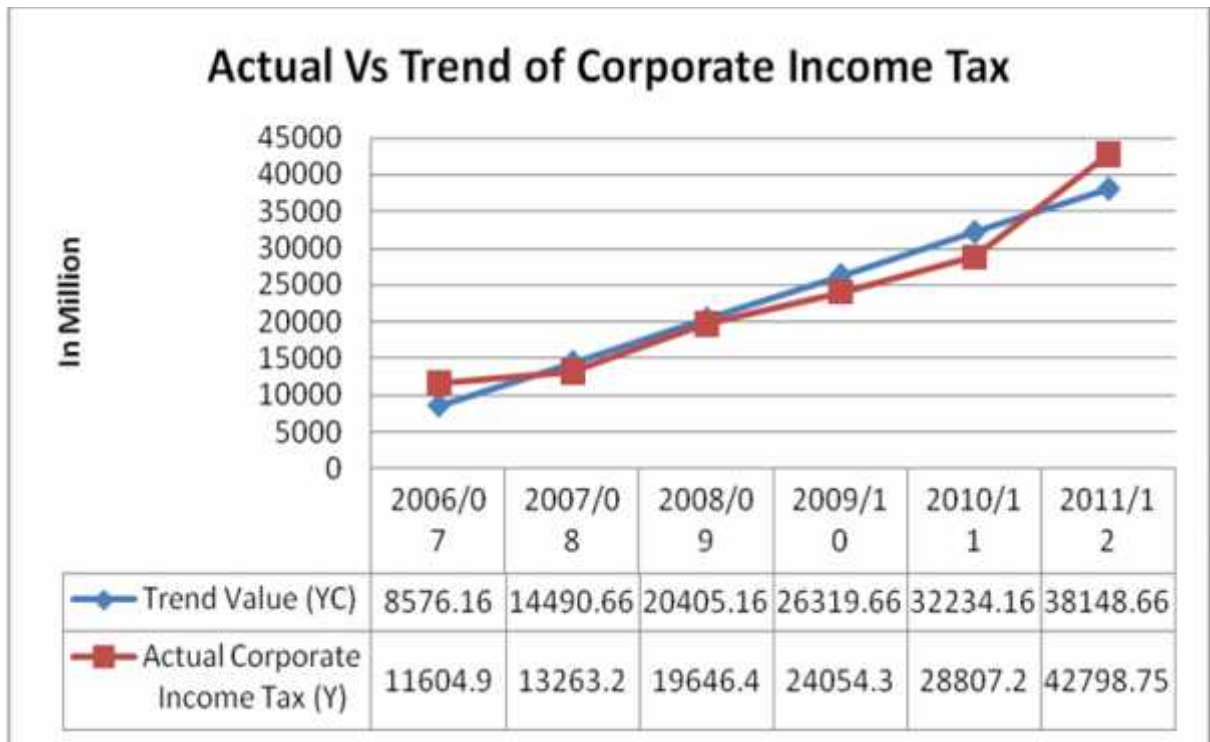
Table 4.4.2

Trend Analysis of total Corporate Income Tax

FY	X	Actual Corporate Income Tax (Y)	A	b	Trend Value (Yc)	Variation
2006/07	-3	11605	26319.66	5914.5	8576.16	3028.74
2007/08	-2	13263	26319.66	5914.5	14490.66	-1227.46
2008/09	-1	19646	26319.66	5914.5	20405.16	-758.76
2009/10	0	24054	26319.66	5914.5	26319.66	-2265.36
2010/11	1	28807	26319.66	5914.5	32234.16	-3426.96
2011/12	2	42799	26319.66	5914.5	38148.66	4650.09

Figure 4.4.3

Trend Analysis of Corporate Income Tax



Above figure (4.4.4) Shows corporate tax is grow by 14.28 percent at 2007/08, 48.12 percent at 2008/09, 22.43 percent at 2009/10, 19.75 percent at 2010/11 & 48.56 percent at 2011/12 as actual corporate tax. In calculated trend ratio increases is 68.96 percent at 2007/08, 40.81 percent at 2008/09, 28.98 percent at 2009/10, 22.47 percent at 2010/11 & 18.34 percent at 2011/12. So volume is increasing way but increasing ratio is decreasing.

Table 4.4.3

Future Projection of Total Corporate Income Tax

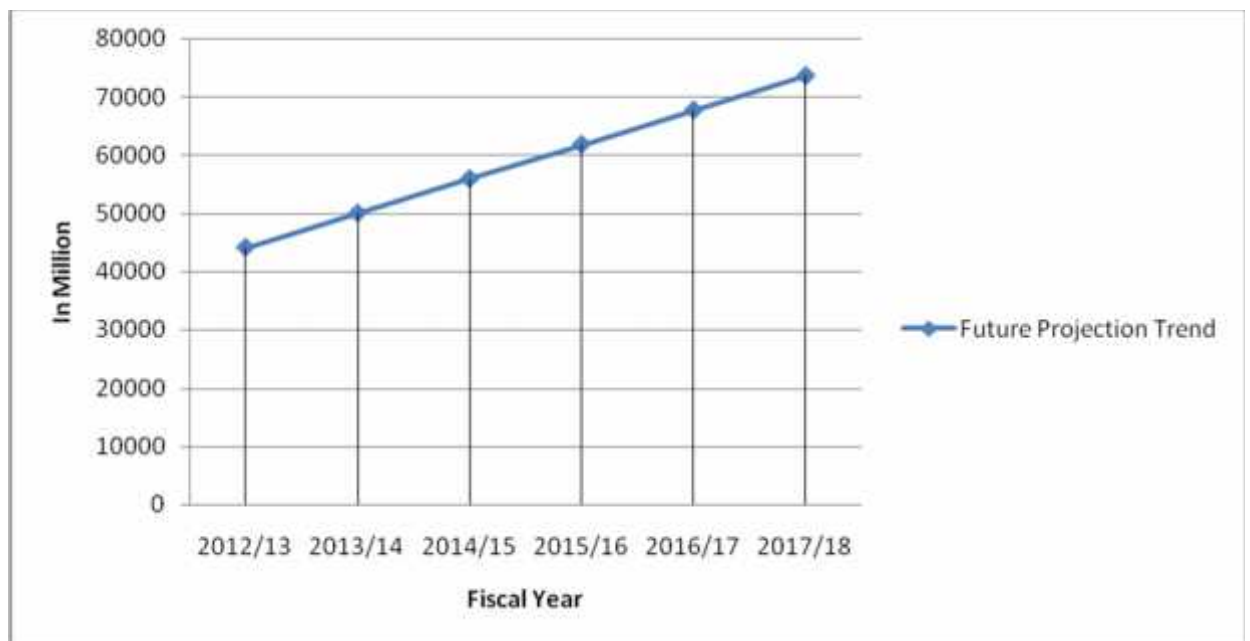
(Rs In Million)

Fiscal Year	X	Factor a	Factor b	Trend Value (YC)
2012/13	3	26319.66	5914.5	44063.16
2013/14	4	26319.66	5914.5	49977.66
2014/15	5	26319.66	5914.5	55892.16
2015/16	6	26319.66	5914.5	61806.66
2016/17	7	26319.66	5914.5	67721.16
2017/18	8	26319.66	5914.5	73635.66

From this study we find corporate tax is always increases. Above table trend value of corporate tax is 44063.16, 49977.66, 55892.16, 61806.66,67721.16 & 73635.66 on FY 2012/12, 2013/14, 2014/15,2015/16, 2016/17 & 2017/18 respectably.

Figure 4.4.4

Future Projection of Total Corporate Income Tax



4.5 Relationship of corporate income tax on total revenue in Nepal

Corporate income tax is a component of revenue. If corporate income tax increases its effect revenue also increases. From this study we found theses relationship is positive. Its effective like as corporate tax decree total revenue also decrees. Also increase corporate tax total revenue also increases.

In the study we have used for find out relationship of corporate income tax & total revenue in Nepal from Karl Pearson’s correlation coefficient. His finding & interpretation is below.

Properties of simple correlation coefficient

-) Correlation coefficient is a pure number that is independent of the units of measurement.
-) Correlation coefficient is independent of change of origin and scale.
-) Correlation coefficient lies between -1 and +1, i.e. $-1 \leq r \leq 1$
-) Correlation coefficient is the geometric mean of two regression coefficients.

Interpretation of Correlation coefficient

Degree	Direction	
	Positive	Negative
Perfect	+1	-1
Significant(very high)	+0.75 to +1	-0.75 to -1
High	+0.50 to +0.75	-0.50 to -0.75
Low	+0.25 to +0.50	-0.25 to -0.50
Insignificant(very low)	0 to +0.25	0 to -0.25
Absent	0	0

From the appendix result is +0.976, which is near to +1, so it is a very high significant. Therefore corporate income tax & Total revenue relation is highly positive. If corporate income tax increases then total revenue also increases.

From the above figure, we can see that the trend of corporate tax is increasing trend. Government to keep chance development corporate house take tax from these to provide rebate make rule. Also we have found significant relationship of corporate income tax to total revenue. On this study correlation of corporate income tax & total revenue is +0.97. It's indicating that it is highly significant. If corporate income tax increases total revenue also increases.

4.6 Loopholes of Nepalese income tax administration

Contribution of income tax to the revenue of government is to minimum. This is because the income tax system in Nepal has been facing many problems. The inefficiency of income tax administration is one of the reasons. The contribution of direct tax and income tax to the revenue of the government is very low to meet the growing expenditure. Nepalese government has been using deficit financing. As the consequence of this, there is significant resource gap in Nepalese budget. The problem can be avoided only when the problems of tax administration are identified and corrective actions are taken immediately.

In my study period, We can see problem from different angel (Tax payer & Tax administrator)

Problems are Facing by the Tax Administrator of Nepal is below

Lack of trained and competent tax personal

Complicated tax laws

Lack of proper direction

Undue delay in making assessment

Lack of coordination

Poor morality & Uneducated tax payer

We find that the important problems faced by tax administration are undue delay in making assessment, lack of proper direction, lack of coordination, lack of trained and competent tax personnel, complicated tax laws, and unnecessary outside pressure are facing by the tax administration. It should be minimized by making simple tax laws, making proper direction, proper coordination, hire trained and competent tax personnel etc.

The major problems facing by the tax payer while paying income tax are as follows:

- a. Lengthy process
- b. Vague provision in income tax laws
- c. Consuming unnecessary time

- d. Expectation illegal incentives by tax personnel
- e. Lack of cooperation by tax administrator
- f. Not properly educated tax officer & it's related personal.

The major causes of income tax evasion in Nepal are below.

- i. Inefficient tax administration.
- ii. Reluctance of taxpayer to maintain account.
- iii. Poor tax morality and taxpayer's compliance
- iv. Poor enforcement of fine and penalties
- v. Inappropriate income tax act and law
- vi. Poor development of corporate sector
- vii. Inadequate auditing and investigation
- viii. Corruption in tax administration
- ix. Lack of cooperation
- x. Illegal business activities etc.

4.7 Findings

Income tax contributes around 21.18 percent of total revenue in Nepal FY 2011/12. Similarly, income tax increased by 2.36 times in the during last 6 years period. Accordingly, income tax covers 15.80 percent of Total revenue in average. Corporate income tax covers of 72.56 percent of income tax in average.

Structure of income in the last six year corporate income tax is higher level than remuneration income, investment income & other income. Also it's ratio is different in different FY.

Structure of income for FY 2006/07 is 73.80 percent, 12.76 percent, 13.43 percent, for FY 2007/08 is 69.56 percent, 12.86 percent, 17.58 percent, for FY 2008/09 is 71.49 percent, 12.37 percent, 16.14 percent, for FY 2009/10 is 71.10 percent, 13.06 percent, 15.84 percent, for FY 2010/11 is 68.48 percent, 13.94 percent, 17.58 percent, for FY 2011/12 is 80.94 percent, 2.96 percent, 16.10 percent, corporate income tax, remuneration income, investment income & other income is respectively .

More than 79 percent of total revenue has been collected from tax revenue in every year by government, Out of total revenue government has collected 59.44 percent, 57.8 percent, 57.5 percent, 63.68 percent, 62.37 percent & 59.56 percent from indirect tax, 21.62 percent, 21.44 percent, 24.8 percent 23.25 percent 24.49 percent and 27.61 percent from direct tax, 18.95 percent, 20.88 percent, 18.42 percent, 13.06 percent, 13.14 percent & 12.83 percent revenue collected from non tax revenue during the FY 2006/07, 2007/08,2008/09, 2009/10, 2010/11, 2011/12 respectively.

The contribution ratio of income tax to direct tax revenue is increasing. Similarly, income tax/total revenue ratio is 19.44 percent in average of last 6 years.

Furthermore, income tax has been contribution less than 4 percent of GDP. It increased by 1.09 times during last 6 years. During the same period of time, corporate income tax increased by 2.69 times and income tax increased by 2.36 times and total revenue increased by 1.76 times. Total tax revenue contributes around 14.89 percent of GDD on 2011/12, which is far below than the desired rate of 20 percent of GDP.

Out of income tax, corporate tax contribution is higher than remuneration income, investment income & other income. Corporate Income tax contribution at income tax is 73.80 percent, 69.56 percent, 71.49 percent, 71.10 percent, 68.48 percent & 80.94 percent on during the FY 2006/07, 2007/08,2008/09, 2009/10, 2010/11, 2011/12 respectively.

Corporate income tax covers 72.56 percent of Total income tax in average in study period 6 years. Remuneration income tax covers 11.33 percent & Investment & other income covers 16.11 percent of income tax in average.

Corporate income tax is increases 14.28 percent on 2007/08, 48.13 percent on 2008/09, 22.44 percent on 2009/10, 19.75 percent on 2010/11 & 48.57 percent on 2011/12. Also contribution on GDP is 1.72 percent, 1.76 percent, 2.16 percent, 2.31 percent & 3.02 percent from corporate income tax. It shows corporate income tax always increases with increasing contribution to GDP.

Future Projection of Total Corporate Income Tax trend value is 44063.16, 49977.66, 55892.16, 61806.66,67721.16 & 73635.66 on FY 2012/12, 2013/14, 2014/15,2015/16, 2016/17 & 2017/18 respectably. It has shows corporate tax increases in future also.

Relationship of corporate income tax & total revenue in Nepal from Karl Pearson's correlation coefficient is +0.97, which is near to +1. So its relationship between corporate income tax & Total Revenue is highly significant.

Tax may be the major source of internal revenue and income tax has to pay important role in tax structure. Collection of income tax has been increasing regularly in Nepal. However, it is known that performance of income, taxation in Nepal is not satisfactory.

The income tax structure of Nepal consists of tax from different sectors. They are income tax from public enterprises, semi-public enterprises, private corporate bodies, individual remuneration, business, industry and occupation house and land rent and interest.

As Nepal is the lowest taxed nation in the world, the tax GDP ratio below its average of 20 percent for the developing countries.

Loopholes:

-) Poor morality of tax payer, tax officer & it's related personal.
-) Uneducated tax payer & not properly educated tax officer & it's related personal.
-) Lengthy process & not clear act, rules and regulation

CHAPTER-FIVR

SUMMARY AND CONCLUSION

5.1 Summary

In Nepal, attainment of national goal of poverty alleviation, by increasing national productivity and economic activity, increasing employment pose major challenges. To address these important areas, allocation of public and national resource, revenue mobilization, public expenditure management, consolidation of fiscal structure etc are very important.

Taxes are the life blood of every government but it cannot be over emphasized that the blood is taken from the arteries of taxpayer and therefore the transfusion has to be accomplished in accordance with the principles of justice and fair. Now a day's taxation has become already of life blood without which government cannot sustain itself. When it is levied on the basis of ability to pay, it will be accepted by everyone but public dissatisfaction becomes invert table when the burden of tax becomes too excessive. In Nepal, a small proportion of development expenditure is met by the revenue surplus and the remaining large segment of development expenditure is met from the growing internal and external borrowings. With this perspective in views, to accelerate development process and to make a strong economy utilizing available internal and external resources effectively, there is need of sound resource mobilization practice in Nepal. However, the sound and effective mobilization of resource, has been a matter of distant future in Nepal.

Considering the factors, this study was done to identify structure of income tax, trend of corporate tax is increasing trend also relationship Corporate income tax & total revenue is positive relationship at revenue mobilization in Nepal. With the help specific objectives of the study are:

- (1) To identify the structure of income tax in Nepal,
- (2) To analyze the trend and pattern of corporate income tax in Nepal,
- (3) To assess the relationship between corporate income tax & total revenue,
- (4) To indicate the loopholes of the income tax system in Nepal.

5.2 Conclusion

On the basis of the above study, following conclusions can be drawn:

- Resource mobilization through corporate income tax & income tax in Nepal is increases every year but it is very poor. It is weak in terms of all total revenue, total tax revenue and total GDP.
- Contribution corporate income tax at income tax is higher than other tax. And high volume of contribution at income tax.
- Corporate income tax trend is increasing, but increases ratio is volatiles in past year. Also increases in projection in future.
- Corporate income tax & total revenue relation is positive (Significant)
- Income tax administration in Nepal is not efficient enough due to the lack of appropriate administration system and serious administrative problems.
- Evasion of income tax is a major constraint of resource mobilization through income tax.
- Income taxpayers in Nepal are facing many problems while paying income tax. Major problems they face are ill behavior of tax administration, undue delay in tax assessment, lack of tax information, complicity of income tax law and income tax assessment procedure.
- A high degree of corruption is found in income tax administration in Nepal.

These are the major causes of minimum generation of revenue of through income tax

5.3 Recommendations

On the basis of above analysis, it is necessary to give various recommendations to the concerned department. It may be essential to improve different aspect of income taxation. The following recommendations are offered regarding the role of income tax in government revenue.

1. Total tax consists of direct tax revenue in Nepalese tax revenue is highly dominated by indirect tax revenue. So, it is necessary to divert the economy in

the path of direct tax revenue. Because of the direct tax, revenue plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.

2. Out of total tax revenue, the contribution of corporate income tax revenue is very low. So the contribution of corporate income tax revenue to tax revenue and direct tax revenue should be increased by checking income tax evasion, bringing new taxpayers into tax brackets tax incentives programs with the help of sound tax planning.
3. Formally around 20 percent tax to GDP ratio is regarded as standard. But Nepalese tax to GDP ratio is around 15 percent on 2011/12. So government to find out new method for increases tax to GDP standard.
4. Through tax planning motives to corporate institution for making future profit & making corporate income tax.
5. Total revenue to corporate income tax relationship is highly significant , So make good environment to make profit for increases corporate income tax & total revenue in Nepal
6. There are also some problems and troubles that the tax administration faced. So, the problems and troubles faced by tax administration should be minimized. Tax office should be recruit trained and competent tax personal, complicated tax laws should be simplified and made clear. It should not delay in making tax assessment co-ordination between two level officer, lower level officer, policy maker and other department personnel should be developed, tax personal should be trained and motivated, there should be changed in the behavior of them, proper monitoring should be made by tax authorities, revenue administration should be made flexible etc.
7. Income tax act rules and regulation should be clear and simple for all the taxpayers as well as tax experts and administrators. The language of act should simple and clear. The income tax assessment procedure and tax collection provision should be made clear and simple so that taxpayers should be encouraged to pay income tax.

8. The provision of fines, penalties and punishment should be implemented effectively for income tax evaders.
9. Effective public participation is necessary to minimize the income tax evasion. The continuous efforts should be done by tax authority to build the taxpayer's positive attitude towards taxation.

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Declaration: I here by declare that all the above-mentioned informations are true and correct.

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APPENDIX -1

Calculation Process of Trend Line

Table A.1

Finding Trend Line Equation of Total Corporate Income Tax

(In Million)

FY	X	Total Corporate Tax (y)	X=(x-4)	X ²	XY
2006/07	1	11604.9	-3	9	-34814.7
2007/08	2	13263.20	-2	4	-26526.4
2008/09	3	19646.40	-1	1	-1946.40
2009/10	4	24054.30	0	0	0
2010/11	5	28807.20	1	1	28807.20
2011/12	6	42798.75	2	4	85596.9
N	6	Y=140174.45	X=-3	X ² =19	XY=33416.6

Trend line equation is given by

$$Y_c = a + bX$$

The value of 'a' and 'b' can be obtained by the following two normal equations.

$$Y = Na + b \quad X$$

$$XY = a \quad X + b \quad X^2$$

Now , Substituting the value from table we get,

$$140179.95 = 6a - 3b \dots\dots\dots (i)$$

$$33416.6 = -3a + 19b \dots\dots\dots (ii)$$

Multiplying equ (i) by 1 & equ (ii) by 2

$$6a - 3b = 140174.45$$

$$-6a + 38b = 66833.2$$

$$35b = 207007.65$$

By solving the equation we get,

$$a = 26219.66$$

$$b = 5914.50$$

Thus the trend equation is

$$Y_c = 26319.66 + 5914.50x$$

With the help of this trend equation we can do trend analysis and future projection of corporate income tax as shown below

Table A.2
Trend Analysis of total Corporate Income Tax

(In Million)

FY	X	Actual Corporate Income Tax (Y)	A	b	Trend Value (Yc)	Variation
2006/07	-3	11605	26319.66	5914.5	8576.16	3028.74
2007/08	-2	13263	26319.66	5914.5	14490.66	-1227.46
2008/09	-1	19646	26319.66	5914.5	20405.16	-758.76
2009/10	0	24054	26319.66	5914.5	26319.66	-2265.36
2010/11	1	28807	26319.66	5914.5	32234.16	-3426.96
2011/12	2	42799	26319.66	5914.5	38148.66	4650.09

Table A.3

Future Projection of Total Corporate Income Tax

(Rs In Million)

Fiscal Year	X	Factor a	Factor b	Trend Value (YC)
2012/13	3	26319.66	5914.5	44063.16
2013/14	4	26319.66	5914.5	49977.66
2014/15	5	26319.66	5914.5	55892.16
2015/16	6	26319.66	5914.5	61806.66
2016/17	7	26319.66	5914.5	67721.16
2017/18	8	26319.66	5914.5	73635.66

Above the calculation, we have found future projection of corporate income tax is increasing trend.

APPENDIX -2

Calculation Process of correlation between corporate income tax & total revenue

Properties of simple correlation coefficient

-) Correlation coefficient is a pure number that is independent of the units of measurement.
-) Correlation coefficient is independent of change of origin and scale.
-) Correlation coefficient lies between -1 and +1, i.e. $-1 \leq r \leq 1$
-) Correlation coefficient is the geometric mean of two regression coefficients.

Interpretation of Correlation coefficient

Degree	Direction	
	Positive	Negative
Perfect	+1	-1
Significant(very high)	+0.75 to +1	-0.75 to -1
High	+0.50 to +0.75	-0.50 to -0.75
Low	+0.25 to +0.50	-0.25 to -0.50
Insignificant(very low)	0 to +0.25	0 to -0.25
Absent	0	0

Formulae for calculating correlation coefficient:

Let us consider two related variables X_1 & X_2 then

$$r_{12} = \frac{n\sum d_1 d_2 - \sum d_1 \sum d_2}{\sqrt{n\sum d_1^2 - (\sum d_1)^2} \sqrt{n\sum d_2^2 - (\sum d_2)^2}}$$

Table B

Finding Relationship of corporate income tax on total revenue in Nepal

Rs In Billion

Fiscal year	X_1	X_2	$d_1 = X_1 - A_1$	$d_2 = X_2 - A_2$	$d_1 d_2$	d_1^2	d_2^2
2006/7	11.604	87.801	(12.45)	(91.779)	1142.649	155.003	8423.385
2007/8	13.263	107.622	(10.79 1)	(71.958)	776.499	116.446	5177.954
2008/9	19.646	143.474	(4.408)	(36.106)	159.155	19.430	1303.643
2009/10	24.054	179.580	0	0	0	0	0
2010/11	28.807	198.655	4.753	19.075	90.663	22.591	363.856
2011/12	42.798	242.320	18.744	62.74	1175.999	351.338	3936.08
			$d_{1=}$ (4.152)	$d_{2=}$ (118.028)	$d_{12=}$ 3344.965	$d_1^2 =$ 664.808	$d_2^2 =$ 19205.146

Where $A_1 = 24.054$ and $A_2 = 179.580$

$X_1 =$ Corporate tax and $X_2 =$ Total revenue

Karl Pearson's correlation coefficient is given by,

$$r_{12} = \frac{n\sum d_1 d_2 - \sum d_1 \sum d_2}{\sqrt{n\sum d_1^2 - (\sum d_1)^2} \sqrt{n\sum d_2^2 - (\sum d_2)^2}}$$

$$r_{12} = \frac{6 * 3344.965 - (-4.152 * -118.028)}{\sqrt{6 * 664.808 - (-4.152)^2} \sqrt{619205.146 - (-118.028)^2}}$$

$$r_{12} = 19579. \frac{738}{63.021 * 318.277}$$

$$= 0.976$$

So it is a very high significant, i.e. +0.976 lies nearly to +1.

Therefore corporate income tax & Total revenue relation is highly positive.