

CHAPTER – ONE

INTRODUCTION

1.1 General Background

The revenue of government comes basically from two sources: Tax and non tax. Non tax revenue includes different sources like grants and gifts, administrative income, business income, registration fees and penalties. Other sources of government revenue are the taxation in customs, excise, vat; corporate and personal income tax is the example of these sources of tax revenue.

The government promulgates the acts in different period to enhances tax revenue and collect the taxes as per provision made in the act. So every government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other development activities. Every nation wants to improve its current status through proper utilization of resources. Government receipts may taken a form of taxes, charges as internal sources and borrowing grants and loans as external sources. These collected huge amount of fund is spent in maintaining peace and security in the country. It includes purchase of arms ammunition, maintenance of army and police administration etc. the government also spends its funds for fulfilling the basic needs of the people, such as health communication, drinking water and other public utility and facility etc.

Similarly, government also has to spend on development of socio economic infrastructure, which facilitates to promote the private sector. All round prosperity of the nation can be achieved through the equal participation of co-operative and private sector in development activities, industry and commerce as well. “Tax is a compulsory contribution from a person to the government to defray the expenses in common interest of all without special benefit

conferred.” Generally, tax is classified into two types on the basis of form. One is direct and another is indirect tax. “Direct tax is really paid by a person whom it is really imposed while an indirect tax is imposed on one person but partly or wholly paid by another.” Property tax, vehicle tax, death tax are example of direct tax. Entertainment tax, sales tax, hotel tax, excise duty, import and export duty is the example of indirect tax. Income tax is the most popular tax. It is considered as one of the major elements of tax revenue. (Bhattarai and koirala,2008)

Although Nepal has a long history of taxation, corporate tax was introduced in 1960 when the business profits and salaries tax act, 1960 was enacted. At this 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 remunerated income sources into five groups (a) Agriculture, (b) Industry, (c) Remuneration, (d) House and compound rent , (e) Other sources. Finally the parliament of Nepal enacted Income Tax Act, 2002 (2058). This act has replaced Income Tax Act, 1974 (2031).

The corporate sector has been classified into three groups: government sector, public sector, and private sector, there are also special industries according to nature and liability of paying tax, special sector’s companies and levied 20% tax rate on taxable income of the companies as per Income Tax Act 2058. Normal industries including trading companies and manufacturing industries have been taxed at 25% and 20% flat respectively and other industry at the rate of 25%, banking and insurance industries have been taxed at the rate of 30% flat rate. The industries established in background areas are provided certain facilities, concession, rebates and taxed holding as per ITA 2058 and Industrial Enterprise Act 2049. The special facilities provided to manufacturing industries other than liquor and tobacco by Income Tax 2058 is as follows:

- A special industry providing direct employment to 300 or more Nepalese citizens throughout the income year are taxed at 90% of the applicable tax rate on that year's income.
- A special industry providing direct employment to 1200 or more Nepalese citizens throughout the year is taxed at 80% of applicable tax rate on that year's income.
- A special industry established in special economic zone (SEZ) are granted on income tax rate of 50%.
- A special industry operating in remote (highly/most undeveloped) underdeveloped areas is taxed at 50%, 70%, and 75% of the applicable tax rate on its income respectively.
- Depreciation of the depreciable assets is to be charged 1/3rd additional for the manufacturing industries.

1.2 Statement of the Problem

After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not seen to have reached at its target point as it has a small economy with limited resources and political instability. Such unfavorable feature helps to draw back the economic status of the country. Economic development is the prime concern of every nation of the world. To fulfill this objective countries of the world are formulating plans but developing countries are facing serious problems in the process of economic development. Nepal is not an exception to this condition. The poverty line of the people (about 35% of the total population) and the per-capita GDP after adjusting the population growth is estimated to Rs.46750.(equivalent to U.S dollar 550) per person which shows the poor economic condition. It needs huge amount of investment in industry for economic development.

The Income Tax Act 2058 provides special facilities and incentives to the manufacturing industries in depreciation, income tax rate, etc. It motivates the

public to operate manufacturing industries which contributes in total tax revenue of the government. However the contribution of manufacturing industries in the total revenue is still very low, thus it is needed to increase the income tax from the manufacturing sectors. Large tax payers who are evading their income from the manufacturing sectors should be brought into tax bracket. So this study is related to the effectiveness of special facilities provided by the ITA 2058, analysis of the contribution of tax and non-tax revenue in total revenue and contribution of income tax in total revenue, tax revenue and direct tax. There are some related problems of manufacturing industries:

- Does present taxation policy help in the growth of the manufacturing industry?
- Are the current- provisions of special facility to a special industry are appropriate?
- How much contribution has been made by income tax to GDP?
- What kinds of provision of facility should be added?
- How much should be the exemption limit for manufacturing industries?

1.3 Objective of the Study

The study is carried out to find the special provisions in manufacturing industries provided by Income Tax Act 2058 or, analyze the impact of special provisions in manufacturing industries provided by Income Tax Act 2058. Following are the other objectives of the study.

- To evaluate how the current taxation policy helps the growth of the industry.
- To evaluate how the current provisions special facility helps the special industry.
- To evaluate the contribution of income tax to GDP.

- To evaluate the impact of special facilities provided to manufacturing industries by ITA 2058.
- To provide appropriate suggestions and recommendations.

1.4 Significance of the Study

Nepal is least developed country. Here total budget is deficit every year. Internal sources of revenue are not sufficient to cover her administration expenses. So, her development activities cannot run appropriately. All the development activities are depending on the bilateral and multilateral grants and loans. The nation is hardly bearing the loan and internal source of revenue is not sufficient even to meet the ordinary expenses. In this context, the easy and long lasting way to increase revenue to strengthen then the internal source is income tax. Thus, revenue collection from income tax, from manufacturing industries by providing special facilities is carried out by ITA 2058 by eliminating the limitations of previous act.

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

1.5 Limitation of the Study

The study is based on provision of special facility to special industries under Income Tax Act 2058. It is not complete study of income tax system in Nepal. The main limitations of this study are as follows:

- Limitation of the study has based on the availability of reliable data and sufficient literature.
- The study was done using primary data but was collected only from Kathmandu valley.

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

1.6 Organization of the Study

The whole study has been organized into five chapters which are:-

- The first chapter of the study contains background statement of problems, objective of the study, need of the study, limitation of the study and organization of the study.
- The second chapter will about the review of literature on related topic. It includes a discussion on the conceptual framework and review of major studies.
- The third chapter will be about research methodology. This chapter deals with the nature of data, research design, population and sample, data collection procedure and methods of analysis.
- The fourth chapter is major part of the study that will be presentation and data analysis. It deals with the presentation and analysis of relevant data with the help of various statistical tool and techniques employed.
- The last chapter will be concerned with finding summary, conclusion and recommendation and suggestions.

At the last this research work has been conducted Appendix and Bibliography as per the need of research work to show the sources and relevant matter of this study.

CHAPTER – TWO

REVIEW OF LITERATURE

This chapter deals with the review relating to the topic “SPECIAL TAX PROVISIONS TO MANUFACTURING INDUSTRIES UNDER INCOME TAX ACT 2058”. Various books, article and reports have been reviewed to perform this research study. Since the research topic was comparatively new and the research paper and the articles directly related to this topic were not easily found. But it was found that most of the books are TU syllabus oriented and some of them described the problems and prospects of income tax system and path of reforming the income tax.

2.1 Conceptual Framework

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 A.D to finance the war fought with France.

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The ideas of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951 A.D, then the finance minister in his budget speech declared the intention of the government to introduce the income tax.

The major goal of income tax in Nepal is to generate more internal resources for public finance. Among them tax revenue is the major internal resources. For the economic and infrastructure development of a nation, manufacturing industries plays a significant role. The tax collection from industries

contributes a significant amount in total collection. The various policies of the government to collect tax and promote the industries have been initiated in order to initialize and promote the manufacturing industries. Government has provided special grants and provisions. Thus, this research attempts to find the impact on manufacturing by special provision provided under Income Tax Act 2058.

2.1.1 Meaning of Taxation

Tax can be defined as a levy or other type of financial change or fee –imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind or many of which it is the legal duty of every citizen of the country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he may be punished in the court of law. A taxpayer is not entitled to compel the government while paying taxes to give something to him in return of the amount he has paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly.

According to Prof. Seligman-“Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.”

“Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states.” Plehn, (2005)

Findlays Shirras, (2007) stated that-“Tax is a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits.”

From the above definitions, it can be concluded that:

- Tax is a compulsory levy imposed by the government.
- Tax is levied on persons as per the prevailing laws.
- Those who pay tax do not get corresponding benefits from the government.
- It is spent for common interest of the people.
- Tax is collected from haves and spent for the interest of have-nots in the society.

2.1.2 Objectives of Taxation

To levied taxes by any nation there are some certain objectives, either those are development objectives, or operating objectives or redistributing objectives. Mainly the government has imposed taxation to achieve objectives of national welfare and maintaining balance of income distribution among the people and eliminating imbalance of equality and balance of development. In brief to achieve following objectives any government has imposed taxation:

- ❖ To raise more revenue,
- ❖ To prevent concentration of wealth in a few hands,
- ❖ To reduce economic inequalities, to boost up the economy,
- ❖ To encourage products of essential goods,
- ❖ To reduce unemployment,
- ❖ To remove regional disparities are the main objectives.

- ❖ To raise more revenue:

The government requires carrying out various development and welfare activities in the country. For this, it needs a huge amount of funds. The government collects funds by imposing taxes. So, raising more and more revenues has been an important objective of tax.

- ❖ To prevent concentration of wealth in a few hands:

Tax is imposed on persons according to their income level. High earners are imposed on high tax through progressive tax system. This prevents wealth being concentrated in a few hands of the rich. So, narrowing the gap between the rich and the poor is another objective of tax.

❖ To reduce economic inequalities, to boost up the economy:

The governments levies tax on have and spend or mobilize it to improve the economic condition of have not form which the economic inequalities will be reduced.

❖ To encourage products of essential goods:

Tax policies provide different special provisions and incentives and facilities to the entity and the natural persons. Producing essential goods are to encourage their production.

❖ To reduce unemployment:

The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts or industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through tax policy.

❖ To remove regional disparities are the main objectives:

The government provides tax exemptions, rebate and concessions to those industries, which are operated in the backward and remote areas. As a result the person attracts to perform economic activities in these areas. The infrastructure which is needed to perform business activities gradually arises. Regional residences became employment. Thus, regional imbalance will be removed.

Why the government has been levied taxes to the civics?

The government of each nation has to be conducted many functions and activities to operate its national mechanism and different development functions of the nation. For this purpose the government should have revenue source in case of which the government has imposed various kind of taxes to its civic and business enterprises. Hence in case of Nepal too, the government of Nepal is also levied different instruments of taxation i.e. direct and indirect taxes to fulfill the need of funding development and operation of the national mechanism. Tax serves as an instrument for promoting economic growth, stability and efficiency. The government controls or expands the economic activities of the country but providing various concessions, rebate and other facilities. The effective tax system can boost up the economy.

Tax is a major source of revenue of government. Today in every developed and developing country government should be requires large amount of fund for public expenditure is accelerating due to the following reasons:

- To meet the requirements of their increasing population.
- To make up development work in addition to their traditional work administration and defense.
- To pay the increased price of commodities.
- To maintain security internally and externally.
- To provide large variety of services and facilities to the public.
- To provide social insurance, unemployment relief, free medical aid, subsidized food and housing, free education, etc.

The expenditure of the government differs with the situation of a given country. A developing country like Nepal spends most of its revenue in the creation of basic infrastructure of economic development where as an affluent nation like USA spends in research and espionage. As the public expenditure increases the revenue of the government must be increased in order to balance the economy.

The expenditure is divided mainly in regular budget and development budget. The development budget is related to the development work, i.e., building infrastructure in the country while the regular budget is related to the civil administration and the defense of the country.

We have already stated that government revenue includes different tax revenue and non-tax revenue. Under tax revenue, income tax is a major part of direct tax. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence invasion and injustice and maintaining public institutions.

2.1.3 Types of Tax

Broadly in case of the nature of taxation and its payment taxation could be divided into two classes. Those two are direct and indirect taxation, which are:

- ❖ Direct Tax
- ❖ Indirect Tax

❖ Direct Tax:

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

Thus, direct taxation has some its unique features which are presented following:

- ✓ It is equitable as it is imposed on person as per the property or income.
- ✓ Time, procedure and amount of tax to be paid are known with certainty.
- ✓ It is flexible, the government can change tax rate with the change in the level of property or income.

❖ **Indirect Tax:**

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incidence of tax are on different persons. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect tax are: vat, excise duty, import and export duty etc.

Imposing indirect taxation has some its merits which are in brief presented below:

- ✓ It is a convenient as the taxpayer does not have to pay a lump sum amount for tax.
- ✓ There is mass participation. Each and every person getting goods or services has to pay tax.
- ✓ There is a less chance of tax evasion as the tax payers pay the tax collected from consumer.

2.1.4 Evolution of Income Tax in Nepal

Taxation in Ancient Nepal

Tax has been of the major sources of national receipts for the ancient time in Nepal. In those days, tax was collected in the form of cash, things and labour from the merchants, travelers and farmers. However, the nature of tax levied by the government was temporary type in the old stage. In the Lichhavi Regime

(known as golden era) tax was the main sources of revenue. In that period, tax was known as “Trikar” which meant three kinds of taxes Viz. “Bhaga”, “Bhoga” and “Kara”. The Bhaga tax was levied on agriculture, Bhoga was on animal and “Kara” tax was on business income. These taxes were introduced as direct taxes for the first time in Nepal. The farmers had to pay taxes on income from agriculture to the government. All artists had to donate labour compulsory as the tax payment.(Poudel and Timilsina,1990)

Taxation in Unified Nepal (1768-1846)

After unification of the kingdom of Nepal expenses for administration, military and other operational activities were increased gradually. During that period, taxation had been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, forest product tax and mining tax were levied. The main objective of imposing those taxes was to maximize the national revenue. In that period tax was collected from three levels: Royal palace, central government and local authorities. They collected cash or goods from taxpayers as taxes. Royal palace had levied taxes, like walk, Gaddimubarak, Chumawan and Goddhawa. Government had levied taxes like ‘Darshan Bhet’ and Salami and local authorities had levied taxes on forest and water sources commercial taxes like customer; transits and market duties; mines and mints; export or forest product like herbs, wax, drugs, wild life, birds, elephants and judicial fines. Taxes from land and business were direct taxes during that period.

Walak was collected from each family in period of national celebration or festivals. Similarly, ‘Gaddimubarak’ was collected in the time of coronation ceremony of new King. ‘Chumawan’ and ‘Godhdhawa’ were collected in the time of investiture and marriage ceremonies of Royal princes and princesses and ‘Gadan’ was levied at the time of death of reigning king to meet funeral expenses. ‘Dharsan Bhet’ was collected from civil and military employees at time of their appointment and conformation of jobs. On the other hand,

‘Salami’ was collected by local authorities in the Terai region. After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The founder of modern Nepal, King Prithivi Narayan Shah had introduced ‘Pota’ tax in 1772, which was regarded as revolutionary measure in the fiscal system of Nepal. It was based on flat rate system rather than progressive rate principal. It was limited on small Birta owners. Though taxation was started, there was no income taxation in the modern sense.

Income Tax in Modern Nepal

After the independence of the country in 1951 (2007), the role of government has drastically changed. Besides enforce to perform developmental activities of government regular functions. So, it was realized to impose tax on profit and remuneration. Consequently, finance act 1959 was passed. In 1960 (2017) a formal income tax act (ITA) was enacted in accordance with the provision of finance act, 1959 for the first time in Nepal. In three years experience, the business profit and remuneration act, 1960 was found very narrow so, it was replaced by the Nepal income tax act 1974(2031).

The income tax act has relations with the constitution; finance act, income tax rules and decisions of the Supreme Court. These make clear the provisions in income tax law. The development of ITA in Nepal is presented below.

Business Profit and Remuneration Tax Act 1960 (2017)

Income tax in Nepal was first introduced in the FY 1959/60. It was then known as “Business profit and remuneration tax”. The imposition of tax was governed by the business profit and Remuneration Tax Act 1960 and rules made there under. This act consisted 22 sections.

This act has some its salient features. The first feature of this act can be taken as that the source of income for tax purpose was limited only to business and remuneration (only two heads of income business or remuneration). Similarly,

taxation on remuneration was to be deducted at source but the specified deduction was not provided. In to this process this act is also has the feature of deductions of expenses are not specified for the calculating taxable income. Besides this, taxation on remuneration could be deducted at sources (TDS).

In case of administrative feature of this act, the tax officer was empowered to asses' tax on best judgment assessment. And, in case of default, fines up to Rs. 5,000 are prescribed. Profits from industries were granted a rebate of 25 percent and profit from small industries were granted a rebate of 50 percent to enhance the industrial activities into the nation.

This act also has some weaknesses too among which this act is taken very narrow and vague scope of taxation. And, high discretionary power was granted to tax officer. So these due to reasons this act was replaced by ITA 1962 (2019).

Income Tax Act 1962 (2019)

This act was on extension of the business profit and remuneration tax act 1960 (2017). It was amended in 1972. The main features of the act are briefly presented below.

The Income Taxation Act, 1962 has levied taxation in all kinds of income such as profit from business, profession, remuneration and occupation, house and land rate, agriculture, insurance business, agency and any other sources. Similarly, the basis of tax assessment was specified on the best judgment estimate of the tax officers. In to this process this act is also has the feature of provision on the installment basis of tax for the first time. It has reassessment of tax as well as rectification of arithmetical errors. Carry forward of losses was allowed for a period of two year.

This income taxation has been provided exemption of income tax industries for a period of not exceeding ten years. It classified the residential status of the taxpayers – for the tax purpose was defined. Similarly, the act granted the power to constitute the income assessment committee. And Deductible expenses as well as methods of calculation of taxable income were specified.

This act had also some weaknesses. Due to which this act is also has been replaced by the Income Taxation Act, 2031. The changing socio-economic environment of the nation had forced to change the ITA. As a result, the ITA, 1974 (2031) was made by abolishing the existing act 1962.

Income Tax Act 1974 (2031)

The ITA 1974 can be said to be the refined from the ITA, 1962. It had 66 sections. This act was amended in 1977, 1979, 1980, 1984, 1985, 1086, 1989 and 1992 to make it more practical and to eliminate confusing terms. Some of the points of the act with amendment are as follows:

This act had clarified the definitions about income tax, taxpayer, and year of income, personal status of taxpayer, non- resident taxpayer, and net income and so on. There are five sources of income which had been specified. They were (i) agriculture, (ii) industry, trade, profession or occupation, (iii) remuneration, (iv) house and compound rents, and (v) others.

This act has provided the facility of carry forward of losses is allowed within subsequent three years. It had made provision for self-assessment of tax for the first time in Nepal. Methods of computing the taxable income from each head had been specified with deductions allowable. Deduction was allowed for life insurance premium. Taxpayers were required to keep accounts and records of the income and to be preserved for six years. Provision was made to make agreement for avoidance of double taxation with foreign governments, and Provision was made relating to reassessment or additional assessment of tax.

Although ITA, 1974 (2031) was far ahead than the prevailing act, yet it had many deficiencies and weaknesses. It had used many vague or unclear words like “reasonable”, “appropriateness” etc. It had also provided high discretionary powers to the tax officer in the matter of tax assessment.

Income Tax Act 2002 (2058)

ITA 2002 has been implemented from 19/12/2058 B.S. This act has replaced the ITA 1974 (2031) and other act related to income tax. Nepal government enacted income tax rules in 2059 B.S. in accordance with the authority given under section 138 ‘g’ ITA 2002 B. has 143 sections. Amended income tax act 2002 has dismissed the section 66. The differences of this act with previous act are made clearly by its salient features.

Income Taxation Act, 2058 has classified income into three headings they are (i) business, (ii) investment, (iii) employment. In this act it has included all the precious relating to income tax, it is a law of income tax code. This act has included all the precious relating to income tax. It is a law of income tax code. Provision has made to impose tax to all income sources uniformly. Provision has been made for the deduction of all expenses relating to income earnings.

Similarly, this act has given the option for husband and wife as a separate natural individual until they don’t accept as a couple. Provision has been made for the deduction of all expenses relating to each income in accumulation from taxpayer’s income. Carry forward of losses is allowed for the period of four subsequent years. This limit is extended up to five years for banking and insurance business. And, provision of tax incentives has continued for infrastructure construction. Electricity projects and special industries and also carry forward of losses are allowed for the period of seven years to infrastructure and electricity projects.

Into this income tax act, it has clearly included the rights and duties of taxpayers. Provisions have made to claim for deduction of pollution control device, research and development expenses, repair and maintenance expenses and donation. It has classified the taxpayers into natural person and entity. Entity includes company, partnership form, and trust and so on. The Inland Revenue department is responsible for the implementation and imprisonment. This act has determined the rate of income tax itself for the first time, which used to be determined by the Finance acts in the previous years.

This income taxation act is also defined resident person too. A person has been defined as resident whose place of abode is in Nepal and who lives in Nepal at any time or who in Nepal for 183 days or more within the income year or who is an employee of Nepal Government posted abroad during the income year. Similarly this act has exempted the income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable. And, donation amount can be deducted as a 5 percent of adjusted income or Rs. 100000 or actual paid amount whichever is less.

Tax Rate Concession to Industries Provided by Income Tax Act, 2058

Some specify concessions have been provided by the prevailing Income Taxation Act, 2058 to industries. Some of them are maintained here in brief: Industries are generally taxed at a flat rate of 25%. Income of approved retirement fund is exempted from tax. Entity running special industry is taxed @20%. Industries engaged in petroleum business under petroleum Act 2040 is taxed @30%. Beside this, this income taxation act has been levied taxation to Bank and financial institutions, general insurance companies and liquor and tobaccos industry @30%.

In case of Industries engaged in building of public Physical infrastructure own operate and transfer to the Nepal Government (Boot entity) is taxed @20%. Industries having export income is taxed at the rate of 20%. Similarly,

repatriated income of foreign permanent established of a non-resident person is taxed @5%. Non-resident person providing shipping, air transport and telecommunication services is taxed as under Service within the Nepal @ 2%. This income tax act has imposed taxation to Service outside or inside Nepal@ 5% conducted by the resident of this country of Nepal. Similarly, in case of special industry and industry based on IT providing direct employment to the 300 or more Nepalese citizens for the whole year is taxed @ 90% of the rate otherwise applicable [90% of 20%=18%]. If Special or IT industry providing direct employment to the 1200 or more Nepalese citizen for the whole year is taxed @80% at the rate otherwise applicable.

Hence, Special of IT industry providing employment to the 100 Nepalese citizens including at least 33% woman or downtrodden, people is taxed @80% of the rate otherwise applicable. Special industry established in specified economic zone (SEZ) situated in mountain district and hilly district is taxed as: first 10 years those industries are free from tax. After 10 years, 50 percent of the tax rate otherwise applicable (forever). Special industry established in SEZ situated other then the maintained above is taxed as: the first 5 years is exempted from free and after 5 years 50 percent of the rate otherwise applicable (forever). Special industry established in remote area is exempted from tax for 1st 10 year. IT industry established in specified it park is taxed at 75 percent of the rate otherwise applicable.

Into this process ITA, 2058 has provided facility to Special industry established in highly undeveloped, undeveloped and underdeveloped area is taxed at 50 percent, 70 percent, and 75 percent of the rate otherwise applicable respectively for 1st 10 year industry year of operation.

- ✓ Highly undeveloped : 50 percent of 20 = 10 percent
- ✓ Underdeveloped area : 70 percent of 20 = 14 percent
- ✓ Underdeveloped area : 75 percent of 20 = 15 percent

This income tax act has provided the facility of selected concession of Industry getting two or more concession at a time may elect only one concession as per its choice.

Sources of Income under Income Tax Act, 2058

The act has made a broad classification of income encompassing of all income-earning activities (sec. 5). They are the broad heads or sources of income which are provided below:

- ❖ Income from Employment
- ❖ Income from Business
- ❖ Income from Investment
- ❖ Income from Investment

- ❖ Income from Employment

An individual's remuneration incomes from an employment, termed as income from employment, are included in employment income. All payments of benefits received in respect of employment, including past or future employment, are made taxable. For example, payments relating to the change of terms of employment, fringe benefits, various types of allowances, salaries, wages, payments received through third parties, etc are included in employment income.

- ❖ Income from Business:

Profits and gain from conducting the business are considered as business income for the purpose of income tax. This type of income may includes services fees, amount derived from the disposal of trading stocks, net gains from disposal of business assets (liabilities), gifts relating to business, and other amounts.

❖ **Income from Investment:**

Profits and gains from conducting and investment are considered as investment income. All types of investment incomes including dividends, interest, natural resource payment, rent, royalty, gains from investment insurance, gain from an unapproved retirement fund, retirement payment made by an approved retirement fund are included in investment income.

Relation of Income Tax Act with other Acts and Laws

Income Tax Act and Constitution

A constitution is a law of laws. It is the fundamental law which guides all Acts and other laws enacted in the country. Income tax act, 2058 is also guided by the constitution of the Nepal. This constitution states that no tax will be raised without laws. Income tax act has been formulated to raise income tax as per the provision in the constitution. Hence, it must be consistent with the spirit of the constitution. If income tax act is found inconsistent with the constitution, the portion to the extent, it is inconsistent will be invalid.

Income Tax act and Finance Act

Income tax act is generally of permanent nature. For example, income tax act 2031 lasted for about 28 years. On the other hand, finance act is of temporary nature. It is generally for one fiscal year and its provisions will remain effective for that year only. Each, year, the government enacts Finance act to amend temporarily the provision in income tax act. For permanent change, income tax act has to be amended through parliament. Income tax act and finance act both are passed by the parliament. This shows that finance act is a complementary to income tax act.

Income Tax Act and Income Tax Rules

Income tax rules are framed to help clarifying the provisions in the income tax act. So, income tax rules are consistent with the income tax act. The act has

empowered the Government of Nepal to frame rules in order to meet the objectives of the act. Income tax act is formulated by the parliament while income tax rules are framed by the Government of Nepal. If income tax rules are found inconsistent with the act the portion to the extent it is inconsistent will be invalid. Hence, income tax rule is a subsidiary of income tax act.

Income Tax act and Provisional Tax Realization Act

Income tax act and provisional tax realization act are also interrelated. When the government requires to levy custom duty, excise duty or other tax or increase such tax rates and if the government through its budget speech may give the order. Once the finance act comes into force or after the six months of notification of such provisional order, such orders will be automatically invalid. If the amount of tax levied by such order is more than by finance act, the excess amount will be refunded and vice versa.

2.1.5 Types of Industries

There are several kinds of industries which are classified on the nature of their capital, the products they make, the manpower they need, etc. The industries that are prevalent in Nepal generally are manufacturing industries, tourism industries, service industries, small business industries, construction industries, energy industries, agro and forest industries, large industries and mineral industries.

- ❖ Manufacturing Industries
- ❖ Tourism Industries
- ❖ Service Industries
- ❖ Small Business
- ❖ Construction Industries
- ❖ Energy Industries
- ❖ Agro and Forest Industries
- ❖ Large Industries

❖ Mineral Industries

Manufacturing Industries are those industries which produces except liquor and tobaccos which called manufacturing industries or produces goods by processing raw material, semi-processed materials by products are called manufacturing industries. Tourism Industries are those businesses and industries related with Tourism lodging, motel, hotel, resort, travel agency, water rafting, cable car complex, trekking, hot air ballooning, golf course, horse-riding are the example of tourism industries.

Similarly, Service Industries are those which provide different kinds of intangible products i.e. services to their customers such as Workshop, printing press, consultancy service, ginning and baling business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, laboratory, air services, cold storage etc are the example of service industries. Small Business could be defined as the industries with a fixed asset between thirty million rupees and one hundred million rupees shall be named as medium or small industries.

Construction Industries are those which are engaged on constructing Road, bridge, ropeway, railway, trolleybus, tunnel, flying bridge and industrial commercial and residential complex construction and operation. Energy Industries are Industries which are generating energy from water resources and wind, solar, coal natural oil and gas, biogas or any other sources as their product. Agro and Forest Industries are those whose business mainly based on agriculture or forest products such as integrated sericulture and skilled production, horticulture and fruit and processing animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seed farming, mushroom, vegetable farming of vegetable processing, tissue culture, green house, bee-keeping, honey production, rubber farming, floriculture and

production, and forestry related businesses such as lease-hold forests, agro forestry etc.

Industries are defined as large Industries which are established with fixed assets of more one hundred million rupees shall name as large industries. Similarly, Mineral Industries are those that operate by exploiting or extraction of natural resources for industrial purpose.

2.2 Review of Related Studies

Income tax has been started in Nepal since 1959/60. After establishment of the act, individuals have studied in this subject regarding legal aspect, administrative problems, historical aspect trend of income tax and income tax structure etc. They have made appreciable efforts in the field of income tax. An attempt is made here to review some of the books, thesis, article and reports, which have been written, in field of income tax in Nepal.

Adhikari (2004), expressed his view in his book “Modern Taxation in Nepal”, that income tax act 2058 has provided the lots of facilities and benefits to industries. He appreciates the present tax act 2058, because of the different provisions and features. He further adds that the 1950 concert of “high incentives high tax rate” is changed to concept of low rate, wide net”. According to him, developed countries provided investment allowance and accelerated depreciation whereas developing countries provided tax holiday for the purpose of promoting the industries. Nepalese government changes its course and abolished. He further expressed his view that most Nepalese companies are facing problems of discretionary power of tax administration, unclear and in-transparent income tax related provision tax submission procedure incompatible of self- assessment system, narrow base of tax, provision of appeal, abolition of various tax related concession, rebates and exemptions. This act has abolished all the unnecessary tax facilities concession and incentives given by industries enterprises and other acts.

Malik (2003), published a book named “Nepal Ko Aadhunik Aayakar Pranali”. In which. He was explained Income Tax Act, 2058 with examples and in a simple way. His book is descriptive and analytical. He has also explained why some of the tax exempted amounts have been brought into tax net by the new act. His unique and original attempt is that he has compared the provisions of the old act and the new act.

Kandel (2004), wrote a book entitled “Tax laws and Tax planning”. This book is used for review.

Prasad (1996), has written a book entitled “Direct Tax Laws and Practice” which is his 30th addition. In his book he has focused in income tax wealth tax, gift tax and tax planning management however tax incentives’ and tax planning are the bases to identify and link the other tax terminology and practice.

Poudel (1993), wrote a book entitled “Income Tax law and practice”. This book has been divided in nine chapters. Mr. Poudel has described must of the related terms in respect with the assessment of different income tax. Mr. Poudel has also described the meaning of tax, basic feature of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of taxpayers, Industrial Enterprises Act 2049, Income remuneration. Methods of computing net income from remuneration, industry, business, profession and vocation, tax deduction at source, income tax authorities, power of tax office, penalty and appeals, rights and duties of tax payers have also been described in this book.

Bhattarai (2009), has written a book entitled “Taxation in Nepal”. Had critically analyzed the income tax facilities provided by industrial enterprises act, 2059 analytically. He had described the facilities given to the industries. He had critically analyzed these facilities given to the industries continuous 7-8 years exemption of income tax will develop the tradition of taking exemption by incorporation legal way. The deduction allowed on modernization of

industry. Pollution control device, technology and product development, etc will protect only big industries. It will not affect to the small industries.

Amatya (1965), wrote a book entitled “Nepalma Ayakar Byabashta”. In this book, Mr. Amataya gave a simple description of “Nepal Income Tax Act 1962” with some example how taxable incomes are derived from different source of income. In this book, Amataya has analyzed, basically, the legal aspect of the income tax. This book is 41 years old and all things mentioned in it are not suitable at present. It has become the historical document in the field of income tax.

Nepal (2005), wrote a thesis entitled “Contribution of Tax Collection from Enterprises to Government Revenue”. The study show the contributed amount from public enterprises to government revenue is increasing every year but in terms of percentage contribution is decreasing. The reasons have mentioned in the study are mismanagement, political recruitment organization, political pressure, transfer of employees one place to another place, lack of modern technology, lack of sufficient capital to investment, political threats and donation etc. Therefore, the contributed percent to total government revenue is in decreasing trend. To resolve the problem the public enterprises should be managed efficiently and it should not make political requirement place another option could be privatized.

Tax law and provision need to be simple and clear. New income tax act found vague and complex to understand which causes contradiction arises between tax authorities and taxpayers. So, unclear and some contradiction provisions need to be removed as early as possible. The area of tax should be widened and tax rate should be decreased to control tax evasion and tax avoidance.

Pokhrel (2007), prepared the thesis entitled “Evaluation of Existing Tax Incentive Plan for Industrial sector under, Income Tax Act, 2058”. His thesis had mainly focused on the tax incentive for industries which were provided by

income tax act 2058. Most of the data were secondary sources and some were from primary. Simple statistical analysis tools used for that thesis.

Pradhan (2001), had presented a dissertation named “Contribution of Income Tax from Public Enterprises to Public Revenue of Nepal”. She had described the public revenue, and share of NTC, conceptual framework of income tax, contribution of income tax to the public revenue and share of NTC to the income tax structure of Nepal and the share of NTC to the tax structure of Nepal.

Her findings about the tax structure were

- Composition of government revenue.
- Tax revenue contributed 77 percent.
- In total tax revenue, indirect tax, constituted 74 percent.

The contribution of tax revenue on GDP was lowest other than SAARC countries except Bangladesh. The contribution of income tax from BTC in total revenue was 2.37 percent. The share of income tax to direct tax revenue had been fluctuating. The average share was 11.1 percent. The share of income tax from NTC on income tax revenue was about 15.06 in average.

Singh (2000), had conducted a research entitled, “A Study on Application of Best Judgment of Income Tax Assessment with Reference to ITA, 1974”. Need, provision and role of best judgment in income tax assessment are the objectives of the study in this study he found that in Nepal, income tax assessment are mainly performed by committee. The study shows more than 70 percent of the total Income tax assessments are finalized by committee. He found that only 9.01 percent of the total income tax assessments were performed on the basis of account in 1990/91, which was 10.49 percent in 1991/1992. In 1999/2000, its share remained only 3.89 percent of income tax assessment. He also discussed on the income tax assessment of Nepal. Basis of

assessment, necessary conditions for best judgment assessment, natural justice and best judgment.

Pantha (2006), has conducted a research entitled, “A Study on Income Tax Management in Nepal”. His study has tried to show the income tax system in Nepal and its role on national economy. He has identified various problems of income tax, management in Nepal. Lack of efficiency is one of the major problems of income tax in Nepal. Lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayer’s education, very narrow coverage of income taxes are the major problems of income tax.

Thapa (2001), wrote a article entitled “Practical Issues in Income Taxation” in Rajaswa Mr. Thapa has focused that income tax is an important source of revenue of the modern government. This tax is not only for revenue but also for attaining equity. However being a direct tax on incomes and profit, these are several practical issues to be settled before it becomes revenue productive as well as equity achiever. Defining taxable income and taxpaying units determining appropriate rate structure and method of assessment are some of such issues, which are instrumental to make the income tax system effective. This article also analysis and explains the theoretical basis to settle these issues.

Khadka (2009), wrote an article in The Kathmandu post on 14th sep. entitled “Income Tax”. The global system is desirable from both economic and equity points of view. Under this system, since income from all sources is taxed in similar manner there is no need to divert resources from one sector to another in response to tax. This system does not encourage taxpayers to waste resources in tax planning. The essence of an income tax is that it can be tied with the taxable capacity of taxpayer. Since, the tax implication of an additional amount of the net income should be the same irrespective of its source, there is a need to treat income from all sources alike. It is also difficult to levy income tax on imputed income. The structure and operation of various

tax levied on different sources of income might be different. In reality, tax system of even most developed countries is not purely global. They are rather mixed. Some sources are subject to final withholding taxes. In practice, all sources may not be treated in a similar manner due to ineffective tax administration and tax avoidance and evasion.

Nepal has adopted some sort of mixed system. Nepal initiated tax only on a few sources of income and extended its scope over the years. Nepal also levied a separate income tax on foreign investment income for some years. Nepal also has been making extensive use of withholding taxes and presumptive taxation. This means that income from various sources has been treated differently. It resembles limited scheduler system. In general net income from different sources is calculated separately. The net income determined in this way is the sense the Nepalese income tax system looks like a quasi-global system. The purposed draft income tax act 2001 considers the importance of global principle. It also limits the scope of withholding taxes and presumptive taxation. This means that with the implementation of this act, Nepalese income tax will be closer to the global taxation.

2.3 Research Gap

Research means to search or study about something to find out result and causes. In other words research is an effort to search again new fact, knowledge, and principle in scientific manner. Various report, articles, books and thesis have been reviewed while preparing this thesis. Almost the thesis was written in different subject area. Books are found mainly based on the syllabus of T.U. base few theses were written on provision of special facility to an industry. Many of them have various problem, as their research objectives and no thoroughly study on a particular subject problem is done except few of research work. No study has been done in the impact of the special provision to manufacturing industries under ITA 2058. So this study has been undertaken analytically and intensively to analyze the impact on industries.

CHAPTER – THREE

RESEARCH METHODOLOGY

Research is defined as human activity based on intellectual application in the investigation of matter. The primary aim of applied research is discovering, interpreting and the development of methods and system for the advancement of human knowledge in a wide Variety of scientific matters of our world and the universe. Research can use the scientific method, but need not do so.

Scientific research relies on the application of the scientific method, a harnessing of curiosity. This research provides scientific information and theory for the explanation of the nature and the properties of the world around us. It makes practical application possible. Scientific research is funded by public authorities, by charitable organizations and by private groups, including many companies. Scientific research can be subdivided into different classifications according to their academic and application disciplines. Historical research is embodied in the historical method. The term research is also used to describe an entire collection of information about a particular subject. Primary researches (also called field research) involve the collection of data that does not already exist. This can be through numerous forms, including questionnaires and telephone interviews' among others. Secondary research (also known as desk research) involves the summary collection and synthesis of existing research rather than primary research, where data is collected from, for examples, research subjects or experiments. The term is widely used in market research and in medical research. The principle methodology in medical secondary research is the systematic review, commonly using meta-analytic statistical techniques, although other methods of synthesis, like realist reviews and meta-narrative reviews, have been developed in recent years. Secondary research can come from either internal or external sources. Finally it concluded

that the research methodology mainly focused on the finding solution of a problem by using research methods.

3.1 Research Design

The research study is focused on analyzing the special provision to manufacturing industries. It is also concerned towards finding out the appropriateness and effectiveness' of special provision to industries. There are most of the study are based on secondary data. Questionnaires are used for primary data also. All the require data and essential information is collected from the Inland Revenues Department and related as well as economic Bulletins published by ministry of Nepal (MOF) and Nepal Rastra Bank (NRB). Descriptive as well as analytical research design are used for research purpose, they are

- I. **Analytical Research -:** In analytical research researcher has to use facts or information already available and analyze these to make a critical evaluation of the material.
- II. **Descriptive Research -:** Descriptive research includes surveys and fact-finding inquiries of different kinds. The main purpose of descriptive research is description of the state of affairs as it exists at present.

3.2. Population and Sample of Study

The study covered only selected areas as well as selected people as sample size. The population of the study is the people who come under income tax bracket and who are affected by the tax policy of the government. In order to fulfill the objectives of this study the 60 sample size is selected from Kathmandu district. Out of them, the tax expert and tax payers in Kathmandu valley were considered as target sample. The respondents have been divided into two groups.

3.3 Sources of Information for This Study

There are mainly two important sources used in the study, which are primary and secondary sources. Primary sources were used for primary data and secondary sources were supposed to be used for secondary data.

(1) Primary Data

Primary data and information have been collected through administrating structured questionnaire to sample of population; the same questionnaire was distributed to all respondents. Tax experts are the professors, auditors and chartered accounts. Tax payers are selected representing various sectors, i.e., manufacturing company, trading company and private banks, departmental stores etc.

(2) Secondary Data

The secondary data and information have been collected from, books, journal news paper, reports etc. the major sources of secondary data have specified as below.

- Budget speech and economic survey of various years, Ministry of Finance (MOF) and government of Nepal (GON).
- Official website of Inland Revenue Departments www.ird.gov.np
- Annual report of Inland Revenue Department, Ministry of Finance. (www.mof.gov.np)
- Dissertation related to income tax.
- Books related to income tax and public finance.
- Various magazine, newspapers and journals.
- Other relevant records and data have been used in this study.

3.4 Data Collection Procedure

various data have been collected as per the objective of the study and research question. Primary and secondary data are used for this study, Firstly laws, rules regulation and policies related to the provisions for manufacturing industries, second is different sources such as:- NRB, IRD officers, annual reports and Ministry of Finance. Thirdly numerical data have been collected from Inland Revenue Department, economic Bulletins of Nepal Rastra Bank and economic survey of Ministry of Finance. Additional information was also collected from interviews with the responded and related persons.

3.5 Data Processing and Analytical Procedure

The result of each and every question out of the questionnaire was submitted respectively; similarly they are ranked and planned in order by editing and coding. The views of the respondents about the question were presented in respective order so that the analysis could be fully based on the respondents. The cumulative result of each questions is described in the form of respondents language as far as possible. The main priority is given to the highest support and decisions of the respondents were collected in the numerical form as well as in the language form. Finally, the summary and suggestions of the study are presented in the summary.

3.6 Weight of Choice

Questionnaire has been asked either in the 'yes' or 'no' format or choice format or rank format to specify. In the rank alternatives, the first choice has got the highest point and the last choice has got lowest point. The total points available to each alternative have been converted into percentage figure. The alternative with the highest percentage has been ranked as most important and the alternative with the lowest percentage has been ranked as the least important. For example, if there are five alternatives, the most important alternative ranked by the respondent has got five points and the least important alternative ranked by the respondents has got one point. The alternative, which is not ranked, has not got any point.

CHAPTER- FOUR

DATA PRESENTATION AND ANALYSIS

This is the main chapter of any research work. Into this data are collected and managed for research purpose. They are analyzed and interpreted with the help of appropriate tools and technique as per research nature and need and as described into chapter third. The concern is given into presentation and analysis part in detail. As data presentation and analysis is crucial part of any research, purpose is to organize collected data to assure an easy and understandable presentation. So, for each and every research work the important of this chapter is most. Because on the basis of this analysis made on chapter findings are obtained. Based on those findings recommendations have been derived and future guidelines are got. It is so obvious that the presentation of the data and its analysis help us to draw valid conclusion.

4.1 Structure of Nepalese Government Revenue

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

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

different government entities. The government revenue is therefore, the mix of tax revenue and non tax revenue are consisted various sources.

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

Non- tax revenue of the government includes various registration fee, income from sale of government services and products, dividend received, royalties, principal and interest received and miscellaneous. The registration license registration and so on. Water charges, electricity charge, telephone charge, post services, income from education, income from food, agriculture and income from transportation are the major factors of sales of government services and products, government received dividend from financial institutions, trading companies, industrial enterprises and service oriented organizations, similarly royalty from mine is also the non-tax revenue of the government.

Table – 4.1**Composition of Total Revenue in Nepal by Head**

(Rs in millions)

Fiscal Year	Tax revenue		Non-Tax Revenue		Total Revenue
	Amount	percentage	Amount	percentage	
2004/05	54107.5	77.16	16018	22.84	70125.5
2005/06	57430.4	79.46	14851.6	20.55	72282
2006/07	71126.7	81.11	16585.5	18.90	87712.2
2007/08	85155.5	79.12	22467	20.88	107622.5
2008/09	117051.9	81.58	26422.6	18.43	143474.5
2009/10	139620.75	88.26	18575.7	11.74	158196.45
2010/11	152201.20	86.62	23504	13.37	175705.2
Total	676694	573.31	138424.4	17	815118.4
Average	96671	81.90	19775	17	116445

Sources: GoN/MoF (2011), Budget Speech

Table 4.1 shows the composition of total revenue; in this table the tax revenue is Rs 54104.7 million in the fiscal year 2004/05, which is the base year for the research. The contribution of tax revenue to the total revenue is 77.16 percentage. In the fiscal year 2010/11 the tax revenue is Rs 152204 million, which is 2.81 times higher than the fiscal year 2004/05. Average tax revenue for the 7 years is Rs 96671 million that occupies on average 83 percent of total revenue. The table indicates that the tax revenue is gradually increasing in every fiscal year 2004/05 to 2010/11 amounting Rs 54107.5 million to Rs 152201 million. But the percentage contribution of tax revenue is fluctuating every year. The contribution of tax revenue is highest 88.26 percentage in the fiscal year 2009/10 and lowest 77.16 in the fiscal year 2004/05.

Non-tax revenue is Rs. 16018 million in the fiscal year 2004/05 which is 22.84 percentage of total revenue. It decreased to Rs 14851.6 million representing 20.55 percentage of total revenue in the fiscal year 2005/06. In the next year non-tax revenue amount of Rs 16585.5 million and 18.90 percentage of total revenue in the fiscal year 2006/07. In the next year non-tax revenue amount of Rs 22467 million and 20.88 percentage of total revenue in the fiscal year 2007/08. In the next year non- tax revenue amount of Rs 26422.6 million and 18.43 percentage of total revenue in the fiscal year 2008/09. But it decrease to Rs 18575.7 million and 11.74 percentage of total revenue in the fiscal year 2009/10. And then increase to Rs 23504 million and 13.37 percentage of total revenue in the fiscal year 2010/11. The average non-tax revenue is Rs 138424.4 million and 17 percentage.

The revenue collection is in increasing trend. It is Rs 70125.5 million in the fiscal year 2004/05 and reached Rs 175705.2 million in the fiscal year 2010/11. The total revenue collection in the last 7 year is Rs 815118.4 million. Total revenue includes both tax revenue and non-tax revenue. The average tax revenue is Rs 96671 million and non-tax revenue is Rs 19775 million.

4.1.1 Composition of Total Tax Revenue

The structure of total tax revenue can be present in terms of consumption, income and capital based tax. Taxes on consumption are also known as indirect tax and taxes on income as well as capital are known as direct taxes. Custom duties, excise duty, VAT, and road and bridge, maintenance tax are included in indirect tax. Similarly, income tax, land tax, vehicle tax, interest wealth tax and other taxes are included in direct tax. The structure of total tax revenue presented in table no. 4.2 in terms of direct and indirect tax revenue from fiscal year 2004/05 to 2010/11. The composition of total tax revenue has been shown below:-

Table: 4.2
Composition of Total Tax Revenue

(Rs in Millions)

Fiscal Year	Direct Tax Revenue		Indirect Tax Revenue		Total Tax Revenue
	Amount	Percentage	Amount	Percentage	
2004/05	13071.80	24.16	41032	75.84	54104.7
2005/06	13968.10	24.32	43462.3	75.68	57430.4
2006/07	18980.3	26.69	52146.4	73.31	71126.4
2007/08	23087.7	27.11	62067.8	72.89	85155.5
2008/09	34320.7	29.32	82731.2	70.68	117051.9
2009/10	33918.3	24.29	105702.45	75.71	139620.75
2010/11	41398.73	27.20	110802.47	72.8	152201.20
Total	178745.63	183.1	497945	516.91	67669085
Average	25535.09	26.16	71135	73.85	96670

Sources :GoN/MOF(2011), Budget Speech

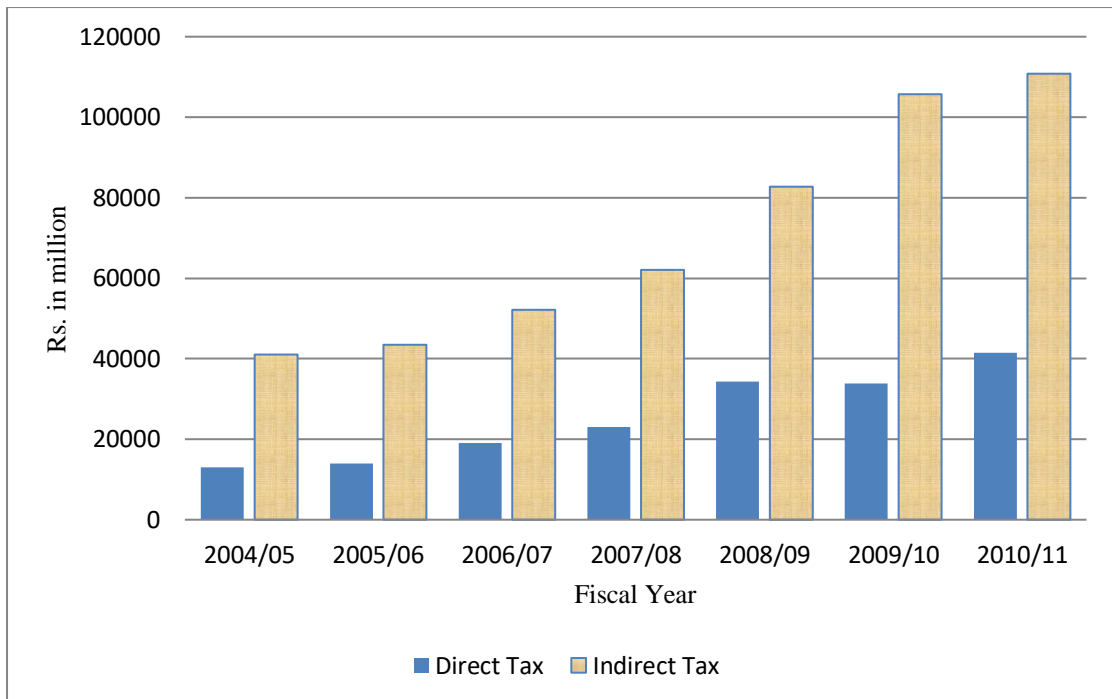
The percentage of direct tax increase up to Fiscal year 2008/09, then after fiscal year 2009/10, has decreased level. And another part of indirect tax Revenue has been increasing level from fiscal year 2004/05 up to fiscal year 2010/11. The average contribution of direct tax revenue in total tax revenue for the period of last 7 years is 26.16 percentage and the average contribution of indirect tax revenue is 73.85%, according to the above table, total tax revenue, direct tax revenue and indirect tax revenue are in increasing trend. The average contribution of direct tax is Rs.25535.09 million and the indirect tax is Rs.71135 million for the period of last 7 years. The amount of direct tax is Rs.13071.80 million in the fiscal year 2004/05. It is increase in each year up to fiscal year 2008/09.

Similarly, the amount of indirect tax is Rs. 41032 million in the fiscal year 2004/05. It increased each year and reached to Rs. 110,802.47 million in the

fiscal year 2010/11 ;percentage contribution of indirect tax to total tax Revenue is highest 75.81 percentage in the fiscal year 2004/05 and lowest 70.68 percentage in the fiscal year 2008/09. The contribution of indirect tax on total tax Revenue is 73.85 percentages on average. The contribution if direct tax and indirect tax revenue on total tax revenue is presented in the following trend line.

Figure: 4.1

Contribution of direct and Indirect Tax on Total Tax Revenue



4.1.2 Composition of Indirect Tax Revenue

The whole Nepalese tax structure is dominated by indirect tax revenue; indirect tax includes sales, tax, custom tax, excise tax, entertainment tax, hotel tax etc. Nepalese tax revenue mainly depends on international trade tax on production of goods and services. Following table shows the composition of indirect tax revenue:

Table: 4.3
Composition of Indirect Tax Revenue

(Rs in Millions)

Fiscal Year	Custom Duties		Tax on consumption and product of goods and services				Total Indirect Tax
			Value Added Tax		Excise on Industrial Product		
	Amount	Percentage	Amount	Percentage	Amount	percentage	
2004/05	15701.6	38.27	18885.4	46.02	6445.9	15.71	41032
2005/06	15344	35.30	21610.7	49.03	6507.6	14.98	43462.3
2006/07	16707.6	32.03	26095.6	50.04	9343.2	17.91	52146.4
2007/08	21062.5	33.93	29815.7	48.04	11189.6	18.03	62067.8
2008/09	26792.9	32.39	39700.9	47.99	16220.9	19.61	82731.2
2009/10	32524.63	30.77	50557.48	47.83	22620.32	21.4	105702.45
2010/11	32675.65	29.49	53240.59	48.05	24886.23	22.46	110802.47
Total	16080	232.18	239906.31	337	97213.75	129.74	497945
Average	22972.71	33.17	34272.34	48.14	13887.68	18.53	71135

Sources: GoN/MoF (2011), Budget Speech

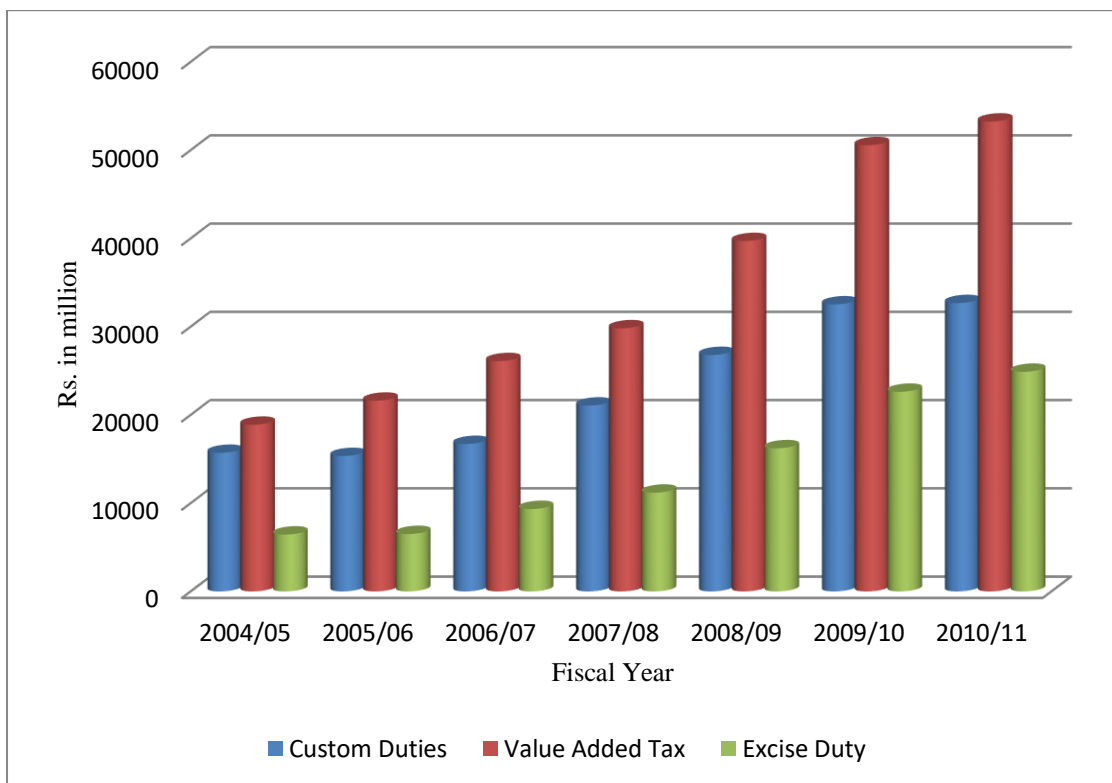
From the above table customs duty and value added tax (VAT) occupies major portion in indirect tax. In the fiscal year 2004/05, the contribution of custom duty is 38.27 percentage, which fluctuated between 38.27 percentage to 29.49 percentage in the fiscal year 2010/11. Then after the average percentage contribution of custom duty to indirect tax is 33.17 percentage during the study period. Nepalese tax revenue in 2010/11. Nepalese tax revenue it depends mainly on international trade and sales/VAT on goods and services Supplemented by taxes on income and property to some extent.

Average share of VAT to indirect tax is 48.14 percentage. Amount of VAT in the fiscal year 2004/05 is Rs. 18845.4 million and reached to Rs 53240.59 million in the fiscal year 2010/11. Similarly, the amount on excise on industrial products is increasing each year but percentage is fluctuating. In average it's

contribution of excise on industrial products on total indirect tax is Rs 13887.68 million and 18.53 percent for the period of last 7 years. Which can show in following figure:

Figure: 4.2

Composition of Indirect Tax Revenue



4.1.3 Composition of Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. The impact on money burden the incidence is on the one and same person. The magnitude of direct tax on the economy growth, it means as the economic growth increase per capital income of the country's people automatically raises and the magnitude of direct tax goes up.

The contribution of direct in total tax revenue is lesser than the contribution of indirect tax in Nepal because of slower economic development. Hence, the major components of direct tax are income tax, house and land registration fee, land revenue, tax on property etc. Which has presented in the table, they are:-

Table: 4.4**Composition of Direct Tax Revenue**

Rs. in Million

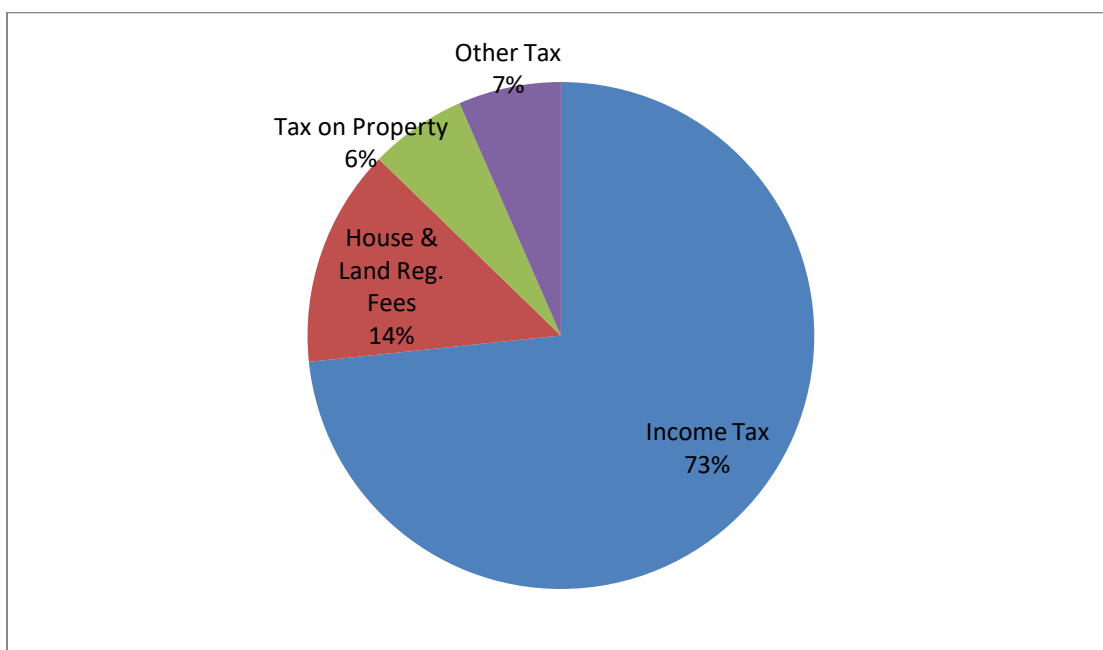
Fiscal Year	Land Revenue and Registration				Tax on Property, Profit and Income					Total Direct Tax
	Land Revenue	House & Land Reg. Fees	Total	% of Total Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of Total Direct Tax	
	0	1792.2	1798.2	13.76	10159.4	806.5	306.7	11272.6	86.84	
2004/05	0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787	84.39	13071.80
2005/06	0	2253.5	2253.5	11.88	15034.2	995	697.8	16726.8	88.12	13968.10
2006/07	0	2940.7	2940.7	12.74	17311.2	1069.2	1766.6	20147	87.26	189820.30
2007/08	0	5223.3	5223.3	15.22	25142.4	1850	2105	290297.4	84.78	23087.7
2008/09	0	4770.45	4770.45	14.06	23596.44	2685.6	2685.75	29147.79	85.94	34320.7
2009/10	0	5696.47	5696.47	13.76	29473.46	2972.6	3256.2	35702.26	86.24	33918.3
2010/11	0	24857.72	24857.72	96.98	131090.8	11226.5	11563.75	153880.85	603.57	41398.73
Total		3551.10	3551.10	13.85	18727.26	1603.79	41651.96	21982.98	86.22	178745.63
Average		3551.10	3551.10	13.85	18727.26	1603.79	41651.96	21982.98	86.22	25535.09s

Sources: GoN/MoF (2011), Budget Speech

From the above table, it becomes clear that direct tax is classified into land revenue, registration fee and tax on property, profit and income. The contribution of land revenue and registration fee is Rs 1792.2 million in the fiscal year 2004/05. Then after its increased up to fiscal year 2010/11, it reached to Rs 5696.47 million. The average of land revenue and registration is Rs 3551.10 million period of last 7 years. Increase of percentage contribution the highest percentage contribution is 15.61 in the fiscal year 2005/06 and lowest is 11.88 percentages in the fiscal year 2006/07. In average land revenue and registration has covered 13.85 percentage of the total direct tax revenue. Another significance source of direct tax revenue is tax on property and other taxes. Income tax includes income tax from public enterprises, semipublic enterprises, private corporate bodies, individual remuneration and tax on interest. Similarly, tax on property includes urban house, land tax and vehicle tax. The share of tax on property, fiscal year 2004/05. It is increasing trend and reached to Rs 35702.26 million in the fiscal year 2010/11. Average contribution of tax on property, profit and income Rs 21982.98 million in the period of last 7 years. In case o percentage contribution, the highest percentage contribution is 88.12 percentages in the fiscal year 2006/07 and the lowest is 84.39 percentage in the fiscal year 2005/06. The following pie-chart house and land registration fee, land revenue, tax on property and other tax on total direct tax revenue in the study period:-

Figure: 4.3

Pie-Chart Showing Average Amount of Component of Direct Tax



4.1.4 Contribution of various taxes as percent to GDP

Table 4.5 shows the contribution of various taxes as percent to GDP during the study period from fiscal year 2004/05 to 2010/11. The contribution of total revenue on GDP has been increasing every year, from fiscal year 2004/05 to fiscal year 2010/11. The detailed report is presented in table 4.5 as below:-

Table: 4.5

**Contribution of Various Taxes as Percent to GDP from the Fiscal
Year 2004/05 to 2010/11**

(Rs in millions)

Fiscal Year	Total Revenue		Total Tax Revenue		Direct Tax Revenue		Indirect Tax Revenue		GDP
	Amt	% on GDP	Amt	% on GDP	Amt	% on GDP	Amt	% on GDP	
2004/05	70122.7	12.78	54104.7	9.86	13071.80	2.38	41032.9	7.48	548485
5005/06	72282	11.83	57430.40	9.51	13968.10	2.29	43462.3	7.11	611118
2006/07	87712.2	12.98	71126.7	10.52	18980.3	2.80	52146.4	7.72	675858
2007/08	107622.5	14.25	85155.5	11.28	23087.7	3.06	62067.8	8.12	755262
2008/09	143474.5	15.76	117051.9	12.86	34320.7	3.77	82731.2	9.09	910160
2009/10	158196.45	14.71	139620.75	12.98	33918.3	3.15	105702.45	9.83	1075143
2010/11	172940	14.94	160206.30	13.84	42250.94	3.65	118534.14	10.24	1157560

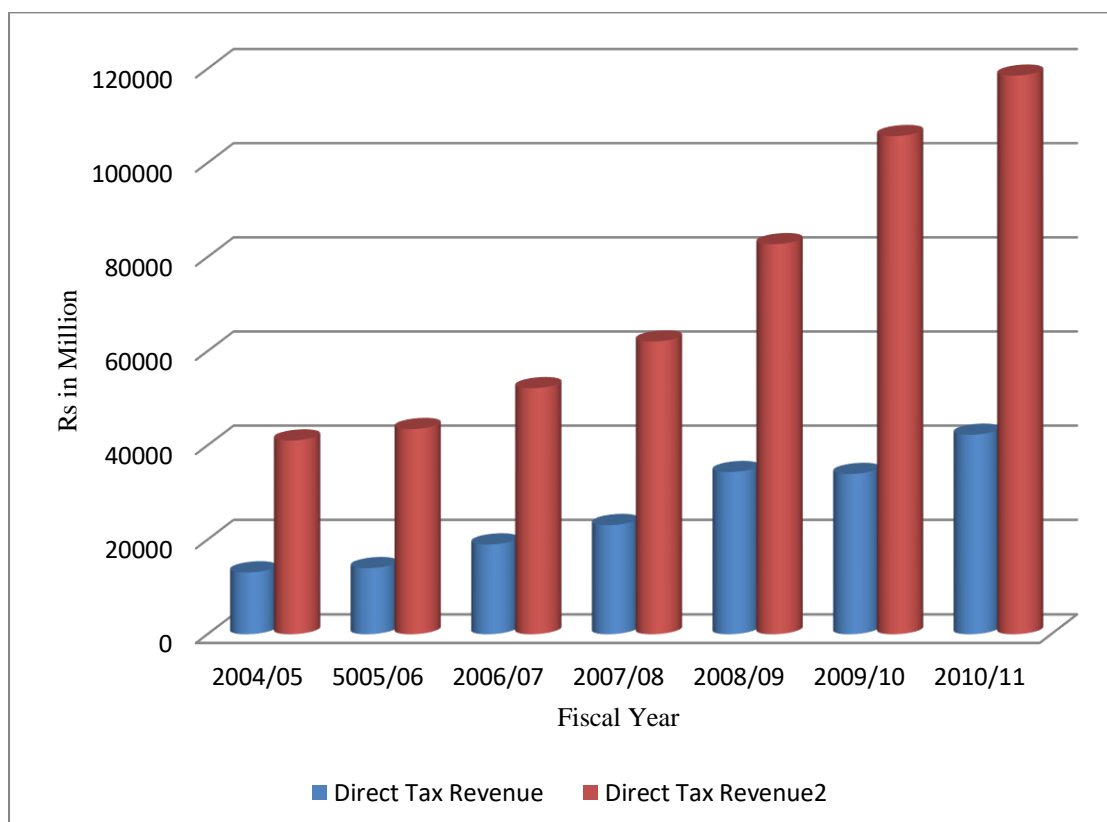
Source: GoN/MoF (2011), Budget Speech

From the above table shows the contribution of various taxes as percentage to GDP from the fiscal year 2004/05 to 2010/11. On the above table there is increasing trend of total Revenue from fiscal year 2004/05 to 2010/11. Where 12.78 percentage in the fiscal year 2004/05 amounting Rs. 548485 million. Where is gradually increased and reached to 15.76 percentage amount Rs 143474.5 million in the fiscal year 2008/09. But it has decreased to 14.71 percentage in the fiscal year 2009/10. The contribution of total tax on GDP was fluctuating in the past 7 years. It is 9.86 percentage and amount Rs 54104.7 million in the fiscal year 2004/05 and fiscal contribute 13.84 percentage. Indirect tax plays significant role in the tax structure of Nepal; which has contributes about three times more then the direct tax. In the fiscal year 2004/05, the contribution of indirect tax and direct tax on GDP are 7.48

percentage and 2.38 percentage amount Rs 41032.9 million and 13071.80 millionj and 10.24 percentage and 3.65 percentage amount Rs 118534.14 million and Rs 42250.94 million respectively in the fiscal year 2010/11.

Figure: 4.4

Contribution of various Taxes as Percent to GDP



4.1.5 Structure of Income Tax in Nepal

The income tax structure of Nepal is the composition of tax from public enterprise, semi-public enterprises, private corporate bodies, individuals, remunerations and tax on interest. Here, Public enterprises sector (PES) refers 5 percent government ownership. Private corporate bodies means private limited companies. Remuneration refers to salaries earned from government and non-government sectors. Structure of income tax in Nepal is presented below.

Table No. 4.6
Structure of Income Tax in Nepal

Fiscal Year	Income Tax Revenue	Public Enterprise Tax		Pvt. Corporate Bodies		Individual Tax		Remuneration		Tax on Interests	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2004/05	10159.4	1332.4	13.11	2467.8	24.29	3926.3	38.65	1675.9	16.50	757	7.45
2005/06	10373.7	195.7	1.89	3404.3	32.82	4234.7	40.82	2007.9	13.35	1054.9	7.02
2006/07	15034.2	1019.7	6.78	5717.1	38.03	5234.4	34.82	2007.9	13.35	1054.9	7.02
2007/08	17311.2	204.6	1.18	7186.5	41.51	6381.2	36.86	2451	14.16	1087.9	6.28
2008/09	25142.4	959.1	3.81	9425.1	37.49	9877.5	39.29	3195.6	12.71	1685.1	6.7
2009/10	23596.44	348	1.47	8775.15	37.19	8190.45	34.71	3496.2	16.08	2486.7	10.54
2010/11	24896.32	574.2	2.31	9340.5	37.52	9455.3	37.98	3612.6	14.51	1913.72	7.69
Total	126513.66	4633.7	30.54	46316.45	248.85	47300	263.13	18503.3	104.77	9760.22	53.15
Average	18073.38	661.96	4.36	6616.64	35.55	6757.13	37.59	2643.33	14.97	1394.32	759

Source: GoN/MoF (2011), Budget Speech

Table no. 4.6, shows the structure of income tax in Nepal, which has presented the total income tax increased in every year except in the fiscal year 2009/10 and 2010/11. It has increased from Rs. 10159.4 million to Rs 29596.44 million from fiscal year 2004/05 to 2009/10. Maximum contribution is Rs 25142.4 million in fiscal year 2008/09.

The contribution of tax from public enterprises sectors (PES) to income tax has been decreasing contribution of public enterprise sector (PES) in income tax was Rs 1332.4 million in the fiscal year 2004/05 and it decreased up to fiscal year 2010/11.

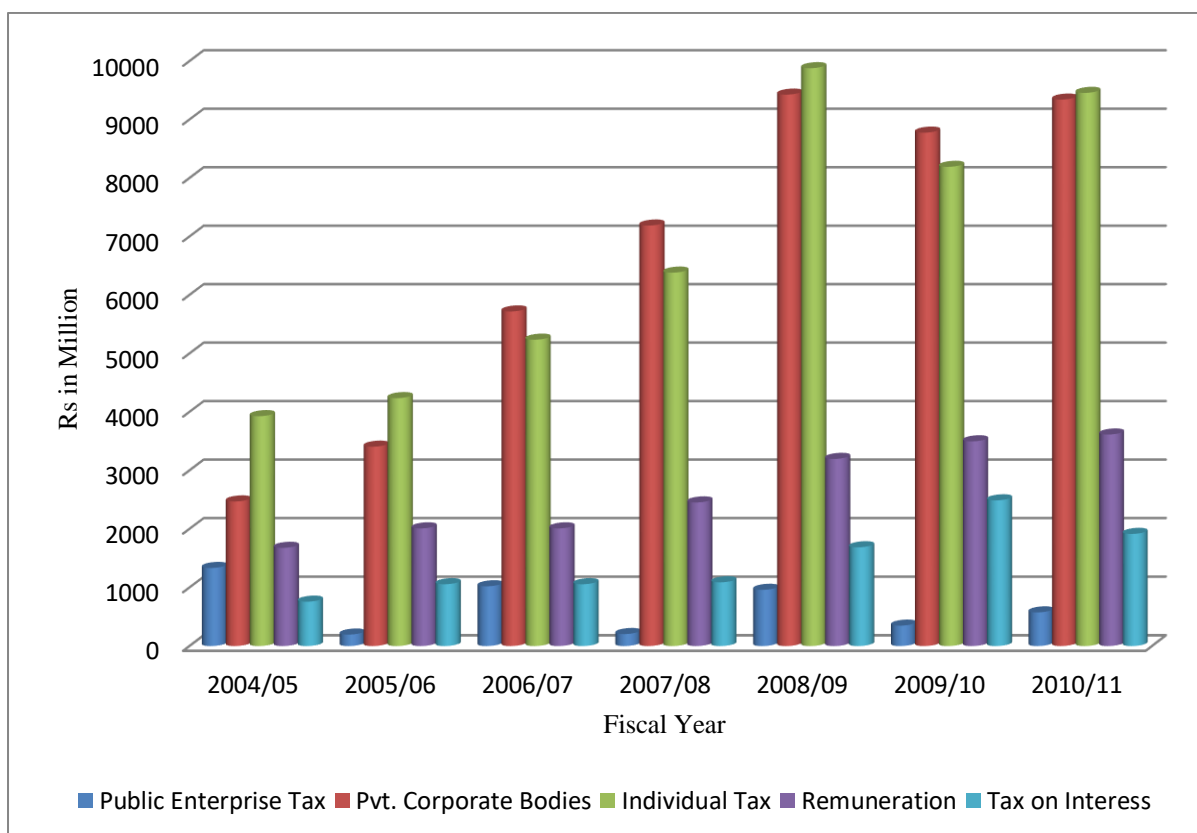
The contribution of income tax from individual to total tax revenue in 2004/05 is Rs 3926.3 million. The contribution from individual has increased in every year except fiscal year 2009/10 and fiscal year 2010/11. But its percentage contribution is fluctuating. The highest contribution of individual tax is 40.82 percentage in the fiscal year 2005/06.

The contribution from remuneration is fluctuating trend. The maximum contribution is Rs 3796.2 million in fiscal year 2009/10 and minimum contribution is 1675.9 million in the fiscal year 2004/05. The percentage contribution of income tax from remuneration is higher in the fiscal year 2005/06 i.e., 17.01 percentage and lowest is 12.71 percentage in the fiscal year 2008/09.

Income tax from interest is increasing trend except fiscal year 2010/11. The maximum contribution from remuneration is Rs. 2486.7 million in the fiscal year 2009/10, which is 10.54 percentage of total income tax. The minimum contribution is made in the year 2004/05 i.e., Rs 757 million, which is near about 7.45 percent of income tax.

Figure 4.5

Structure of Income Tax Revenue



4.2 Empirical Investigation

An empirical investigation has been done in order to find out various aspects of special tax provision to manufacturing industries. For which questionnaire has been developed and responses collected from the respondents. The questionnaires were distributed to various respondents associated with tax experts and tax payers. The responses received from various respondents have been arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of respondents in appendix A and B respectively)

The questionnaire has been asked for either yes/no response or asked for ranking of choice according to their preference. In the alternatives, the first choice has the most importance and the last choice has the least importance.

The choice among the ranking alternatives has assigned weight according to the number of alternatives. If the choice has five point and the first choice has one points. Any alternatives, which has no ranked got no points. The total points available to each choice have converted into percentage with references to the total points available for all choices. The choices with the highest score have ranked as the most important choice and the one with lowest percentage score has ranked as the last choice.

The following table shows the group of respondents.

Table: 4.2

Group of Respondents

S. N.	Group of Respondents	Sample Size
1.	Tax expert	30
2.	Tax payer	30
	Total	60

The finding from this survey has been analyzed below:

4.2.1 Appropriateness of Special Provisions to Manufacturing Industries Provided by ITA 2058

To know the opinion towards the appropriateness of special provisions to manufacturing industries under ITA 2058, the question “Are the special provisions to manufacturing industries provided by ITA appropriate?” was asked. The responses receive from the respondents have tabulated as follows:

Table 4.2.1

Appropriateness of Special Provisions to Mfg. Industries under ITA 2058

Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax experts	20	66.67	10	33.33	30	100
Tax Payers	8	26.67	22	73.4	30	100
Total	28	46.67	32	53.4	60	100

From the above table, it is clear that about 46.67 percent of the respondents only have accepted that the special provisions given by ITA 2058 are appropriate. It means that special provisions provided by the new ITA 2058 are not appropriate. It shows that tax payers feel more burdens in tax payments’.

Hypothesis testing:

Null Hypothesis

H₀: there is no significance difference between tax experts and tax payers.

Alternative Hypothesis:

H₁: there is significance difference between tax experts and tax payers.

Tax expert and tax payers

Considering Chi- Square test, since calculated value of chi-square is greater than tabulated values of chi-square since the null hypothesis H₀ is rejected and the alternative hypothesis H₁ is accepted. Therefore we conclude that there is significance difference between tax expert and tax payers. (Source: Appendix-II)

4.2.2 The Additional Special Provisions to be provided by ITA to

Industries

While finding the appropriateness about special respondent are asked to rank given facility be added. Responded have been requested to rank their responses from 1 (most important), 2 (next most important), 3 (third most important) and so on..... The responses from various respondents have tabulated on Appendix-III.

We have formula,

$$\begin{aligned} R &= 1 - \frac{6 \sum d^2}{n(n^2 - 1)} \\ &= 1 - \frac{6 \times 0}{4(16 - 1)} \\ &= 1 \end{aligned}$$

Since, the rank correlation coefficient is 1. It, earns view of the experts and tax payers are correlated with each other. It shows that tax rate should be minimized: (Source)

4.2.3 The Need of Increasing the Special Facilities

To know the respondent opinion about special facilities provided by ITA 2058 are enough or to be increased a question was asked, “Is it is necessary to increase the special facilities to manufacturing industries?” the views of respondents are summarized in the following table:-

Table: 4.2.3

The Need of Increasing the Special Facilities

Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax experts	18	60	12	40	30	100
Tax payers	22	73.33	8	26.66	30	100
Total	40	66.66	20	33.33	60	100

From the above table, it is clear that 66.66 percent of the respondents are agree to increase the special facilities and 33.33 percent were suggested that there is no need of increasing special facilities. They viewed that the infrastructure is most important than increasing the facilities. Therefore government should make the fair business environments instead of increasing the facilities. However there are majority of tax payer are in increasing the special facilities that encourage them.

4.2.4 Opinion Towards the Additional Depreciation Chargeable to the Mfg Industries

In order to know the opinion towards the additional depreciation chargeable to the manufacturing industries, a question: “ Do you think that manufacturing industry should get to charge additional depreciation?” has been asked. The responses of the respondents have been presented in the following table:

Table: 4.2.4

Additional Depreciation Chargeable to the Mfg Industries

Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax experts	18	60	12	40	30	100
Tax payers	20	66.67	10	33.33	30	100
Total	38	63.33	22	36.67	60	100

From the above table, it is clear that the 63.33 percentage of the respondents are agree with the additional depreciation chargeable to manufacturing industries and 36.67 percentage of the respondent do not agree with that. It can be concluded that the additional depreciation must be provided to manufacturing industries.

Hypothesis Testing:

Null Hypothesis

H₀: There is no significance difference between tax experts and tax payers.

Alternative Hypothesis

H₁: There is significance difference between tax experts and tax payers.

Considering the chi-square test, since the calculated value of x^2 is less than tabulated value the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, there is no significance hypothesis is rejected. Therefore, there is no significance difference between the tax experts and tax payers. So, it can be concluded that additional depreciation regarding to the industry is satisfactory.

4.2.5 Accountability on Duties and Rights by Tax Payers

To know the respondents opinion about the duties and right by tax payers a question was asked, “Are the industrial tax payers responding their rights and duties sincerely in computation of taxable income ?” Response of responds are presented in the following table:

Table: 4.2.5

Accountability on Duties and Rights by Tax Payers

Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax experts	18	60	12	40	30	100
Tax payers	14	46.67	16	53.33	30	100
Total	32	53.33	28	46.67	60	100

From the above table, it is clear that 53.33 percent is favors of Accounting on Duties and Rights by tax payers, there are 60 percent tax experts and 46.67 percent tax payers were fully supported, that they were responding their rights and duties but 40 percent tax experts and 53.33 percent tax payers said that tax payers are responding on their and duties on computation of taxable income. After this in order to know the reasons, an additional question was asked, “why the industrial tax payers not responding their duties in computation of taxable income sincerely?” Respondents are requested to tank with their preference from 1-4 they prioritized the reasons as follows:

- Lack of tax burden.
- Lack of information.
- Legalization problems.
- Poor enforcement of fine and penalty.

It shows providing tax education is the solution of this problem.

4.2.6 Opinion Towards the Provision of Foreign Tax Credit

Amount of income tax paid in a foreign country is deductible as tax credit from the tax liability of foreign source income. However, such amount does not exceed the average rate of Nepal Income Tax. To know the opinion of respondents about the foreign tax credit a question “Do you agree with the provisions of foreign tax credit?” has asked. The responses from the respondents have tabulated below:-

Table: 4.2.6

Appropriateness Foreign Tax Credit

Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax experts	30	100	0	0	30	100
Tax payers	25	83.33	5	16.67	30	100
Total	55	91.67	5	8.33	60	100

From the above table, it is clear that 100 percent tax experts and 83.33 percent of the tax payers are satisfied with the provisions of foreign tax credit. As a whole, about 91.67 percent of the respondents have satisfied with the provision of foreign tax provision of foreign income tax credit is satisfactory.

4.2.7 Opinion Towards the Classification of Total Area

In order to know the opinion towards the classification of total area to an industry, a question: “Whether it helps to increase the industries?” ITA 2058 has classified the total area into remote, underdeveloped and undeveloped. The responses of the respondents has presented in the following table:-

Table: 4.2.7
Classification of Total Area

Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
Tax experts	12	40	18	60	30	100
Tax payers	20	66.67	10	33.33	30	100
Total	32	53.33	28	46.67	60	100

Soule: Opinion Survey, 2068

From the survey of tax experts and tax payers on the responses of respondents, there are 53.33 percentages of respondents are in favor of the classification of total area and 46.67 percent of respondents are disfavor of this opinion. Hence, we conclude that classification of total area is helps to increase the industries, where a industries received maximum incentive and rebate.

4.3 Major Findings

The major findings of the study on “Special Tax Provisions to Manufacturing Industries under ITA 2058” during the seven years study period have been summarized below:

1. The study shows the contribution of total Revenue on GDP is in increasing trend. There is 12.78 percent in fiscal year 2004/05 and 14.94 percent in fiscal year 2010/11. The contribution of total tax revenue on GDP nearly remained constant during the study period. It is 9.86 percent in fiscal year 2004/05 and 13.84 percent in fiscal year 2010/11. The contributing direct and indirect tax on GDP are 2.38 percent and 7.84 percent in fiscal year 2004/05 and 3.65 percent and 10.24 percent in fiscal year 2010/11. The contribution of total revenue, total tax revenue and indirect tax revenue on GDP are not satisfactory.
2. Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect tax on total tax revenue are 24.16 and 75.84 become 27.28 and 72.8 percent in fiscal year 2010/11. However, the share of indirect tax in Nepalese tax revenue is increasing trend except 2010/11.
3. The Nepalese government revenue is the composition of tax and non-tax revenue. There is dominant share of tax revenue in Nepalese government revenue. The tax revenue collection has seen to be in the gradually increasing trend from fiscal year 2004/05 to 2010/11.

4. As per opinion survey, most of the respondents have suggested to increase the facilities. It helps to increase number of industries and employment opportunities, which reduces the dependency. On the other sides, 33.33 percent of respondents are not ready to accept the view of increasing the facilities. However, the majority of taxpayer are favor of increasing the facilities.
5. There are most of the respondents are disfavor of the appropriateness of special provisions to manufacturing industries provided by ITA 2058. There are 46.67 percent are in favors of this aspects and rather than disfavors of this aspects. It shows that there must be change in ITA 2058.
6. Lack of tax education, lack of tax planning system, lack of skilled labor and negligence of tax administrators are the main reasons of poor implementation of the act in manufacturing sector.

CHAPTER–FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In each and every country, lots of funds is required to meet the additional financial requirements for the developing activities. In developing countries lack of financial resources is main constraints for the nation's development. The government has responsibility to fulfill fundamental needs of the country. To fulfill the fundamental needs government collects the revenue in terms of direct tax and indirect tax. Nepal has been unable in proper mobilization of internal sources. Therefore fiscal deficit of Nepal has been increasing. Income tax should play important role to solve the problem of fiscal deficit. But in Nepal, actual collection of income tax revenue is lower than its estimated forecast.

Nepal has been suffering from capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing every year. To meet the additional capital requirement, Nepalese government can use internal and external resources. The government activities are increasing day by day because of increasing price, national income and demand of time. Government needs more money to run the government successfully, for implemented the problems, the government must provides more facilities to an industries. Any country, anywhere, they needs more money to fulfill this objectives. The government should motivate industry. For example: decrease in tax rate, more facilities provide to remote areas industry, provide concession rate, excess rate of depreciation etc.

Overall, this study covers the importance of income tax in government revenue, provisions and facilities. Special tax provisions to special industries play important role for the development of the industries. In these studies, there are different, books, articles; thesis and others related reference materials are studied during this study. This study is unique then other related thesis. Because no one has been conducted the research on the specific topic. All study found written on various aspects of income taxation. Books have been found based mainly on the syllabus of universities. In these studies includes facilities and concession to manufacturing industries, classification of the manufacturing industries, national priorities industries and classification of districts etc. In here economic survey has been used, a scheduled of questionnaire has been used to collect the opinion of respondents. The respondents has classified into two groups, they are tax experts and tax payers. Tax experts include: tax officers, teacher and charter accountants and tax payer includes: trading companies, finance companies and government organizations. There are 30 percent of question was distributed among them 60 respondents in return of their responses, that has been 30 each group.

In this study, primary as well secondary data have been used. The sources of primary data were form the analysis of respondent's response. Response was collected from respondents representing tax officer, tax experts /policy maker and taxpayers. Questionnaire were distributed and collected and information was also tabulated. The secondary data were collected from economic survey of various years, reports of IRD as well as economic indicator of Nepal Rastra Bank (NRB). Statistical analysis has been done to analyze the data; correlations for test, Chi-Square test for hypothesis have been used in this study. Overall materials are used for completing this study. Major finding from primary as well as secondary data analysis have put in the end of this thesis.

5.2 Conclusion

Nepal is one of the least developed countries in the world and suffering from the socio-political and economic problem. Because of poor performance of internal resources collection and mobilization the dependency in foreign loans and grants is increasing. Lack of sufficient financial resources is the major constraint of economic development in developing country like Nepal. This country requires a lot of money to meet the additional financial requirements for their growing development activities. Nepal has been facing the problem of capital shortage to accelerate the pace of economic growth. The expenditure of Nepalese government is increasing year by year due to expanding development as well as regular functions. Income tax is one of the most important resource of the government revenue. Contribution of income tax for the economic development of Nepal has been increasing significant in recent year.

Nepal's industries are facing serious income tax related problem like unclear definition of income, delay procedure, frequent change in tax act, defective tax administration and so on. So, we concluded that the government of Nepal should make fair environment to industrial sector and must provide special tax provisions to manufacturing industries. It helps to increase industrial sector and many of unemployment people have got employment. When a people get a job and made fairly environment of industries, then the revenue of Nepal frequency increases.

Some conclusion has been presented below:

- However the provisions and facilities are provided by ITA, it seems to be insufficient, some facilities should be brought to industries.
- The most important reason that tax planning is not widely used in Nepal, the tax administration is not cooperative.
- ITA 2058 has no clear provisions in all aspect of tax planning. So there are lots of difficulties to plan tax.

- 10 years tax rebate is not sufficient to increase the industries. Tax rebate years should be increases.
- Tax concession of 50%, 30% and 25% to the industries established in the remote ,undeveloped and underdeveloped, area is not sufficient.
- 10 years tax rebate, i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.

5.3 Recommendations

In the sight of finding of the study, the following recommendations are made:

- The term and procedures under income tax act should be simplified.
- Government should make a policy to improve the present income tax system.
- Present tax rate should be reviewed and should make new tax rate.
- Government should bring the policy to simplify the tax laws, increase the efficient of tax administration and simplified assessment procedure.
- Due to lock, strike and uncontrollable situation occurred in past day in Nepal, industries bared huge losses so government should provide tax exempt to that industries.
- Government should prepare special tax policy for manufacturing company.
- Focus should be given for proper implementation of present tax policy.
- The members involved in formulating income tax policies must have deep knowledge about income tax. The income tax policy maker have to see the income tax policies of other developing countries as well as other related developed countries for the improvement of policies.
- There should be co-ordination between the tax act and other acts, so that misunderstanding cannot be arising.

- A regular information program should be launched to explain tax laws, tax program tax benefits.
- Income tax should be liberal with broad base.
- Tax authority should do continuous effective in order to develop the positive attitude of industries towards taxation.
- Special tax policy should be made for sick industries.
- New company means new employment new goods and services and thus new tax payer so, government should made special provisions of tax facilities and exemption to new companies.
- Disputes among the industries should be settled fast. Special laws should be created for disputes settlement among the industries.
- Government should respect to large tax payers industries.
- Special provision have been provided to manufacturing industries, by ITA 2058 but the result of this sector has not been researched, it is advisable to renew the arrangement as far as the result of survey.
- Government should make policy to stop delay procedure.

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Appendix - I

Questionnaire

Firstly, I would like to introduce myself. This is me, Govinda Pandey. The student of Master of Business Studies (MBS) at Central Department of Management, Tribhuvan University. I am writing a thesis entitled " Special Tax Provisions To Manufacturing Industries, Under Income Tax Act, 2058."

I hope my respected Sir, you will provide me your suggestion, and Share your knowledge to make this thesis effective. As you wish I have prepare a question, What I think, please would you not mind to fill up according to the question and if you have your special suggestion you can write in the back side or you can advice individually to me. I hope for your kind co-operation and support.

Questionnaire

Please tick your answer in the corresponding box, please rank from 1 (most important alternatives) to last number in order to preference.

1. Is the special provisions to industries in the ITA 2058 play vital role in increasing industries?

(i) Yes [] (ii) No []

2. Are the special provisions to industries provided by ITA sufficient?

(i) Yes [] (ii) No []

If no, what additional provisions should be provided? (Please rank)

(a) Tax rate should be minimized.

(b) To promote industry.

(c) To promote industry in back ward Area.

- (d) If any other (Please specify)
3. Do you think that the current provision of deduction facility of contribution to retirement fund is appropriate?
- (i) Yes [] (ii) No []
4. Do you think that income tax is an important source of collecting government revenue?
- (i) Yes [] (ii) No []
5. Do you think that there is poor taxpaying habit among Nepalese people?
- (i) Yes [] (ii) No []

If yes what may be the reasons:

- (a) Poverties of tax payers
- (b) Lack of incentives for regular tax payers.
- (c) Little knowledge of tax and its benefits.
- (d) If any other, (Please specify).
6. In your opinion, what are the problems faced by industries regarding income tax system?
- (a) Inefficient tax administration
- (b) Lack of clear act, rules and regulations.
- (c) High Revolution in the country
- (d) Any other (Please specify)
7. What kind of facilities should the government provide to industries?
- (a) Tax rate should be reduced.

(b) Exemption limit should be increased.

(c) Remove political pressure.

(d) Any other, (please specify)

8. Do you think special provisions to manufacturing industries should be provided?

(i) Yes [] (ii) No []

Appendix -2

Computation of Expected Frequencies under Chi-Square

H_0 : There is no significance difference between tax experts and taxpayer.

H_1 : There is significance difference between tax experts and tax payers.

Test Statistics :

$$E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

$$\text{Chi-square} = \sum \frac{(O - E)^2}{E} \text{ Where,}$$

O = observed Frequency

E = Expected Frequency

Calculation of chi-square

(Row, Column)	O	E	O-E	(O-E) ²	$\frac{(O - E)^2}{E}$
(1,1)	20	$30 \times 28 \div 60 = 14$	6	36	2.572
(1,2)	10	$30 \times 32 \div 60 = 16$	-6	36	2.25
(2,1)	8	$30 \times 28 \div 60 = 14$	-6	36	2.572
(2,2)	22	$30 \times 32 \div 60 = 16$	6	36	2.25
Total					9.644

$$\text{Calculated chi-square} = \sum \frac{(O - E)^2}{E} = 9.644$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

Level of significance

$$\alpha = 5\% = 0.05 = \text{Tab, chi-square } 0.05 (1) = 3.841$$

Since calculated chi-square $>$ tabulated, chi-square therefore null hypothesis is rejected and the alternative hypothesis is accepted. Therefore there is significant difference between Tax experts and tax payers.

Appendix -3

Calculation of Rank Correlation Coefficient

S.N	Alternatives	X	Y	Rank for R ₁	Rank for R ₂	D= R ₁ -R ₂	D ²
1.	Tax Rate should be minimized	80	85	1	1	0	0
2.	To promote industry	35	40	3	3	0	0
3.	To promote industry in backward area	70	68	2	2	0	0
0	Others	10	18	4	4	0	0

Note : X refers to tax experts and Y refers to tax payer)

We have formula,

$$R = 1 - \frac{6\sum D^2}{n(n^2 - 1)} = 1 - \frac{6 \times 0}{4(16 - 1)} = 1$$

Since, the rank correlation coefficient is 1. It means view of the experts and tax payers are correlate with each other. It shows that tax rate should be minimized.

Appendix -4

Calculation of Expected Frequencies under Chi-Square

H_0 : There is no significance difference between tax experts and taxpayers.

H_1 : There is significance difference between tax experts and tax payers.

Test Statistics :

$$\text{chi square} = \sum \frac{(O - E)^2}{E} \text{ Where,}$$

O = observed Frequency

E = Expected Frequency

$$E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of chi-square

(Row, Column)	O	E	O-E	(O-E) ²	$\frac{(O - E)^2}{E}$
(1,1)	18	$30 \times 38 \div 60 = 19$	-1	1	0.0526
(1,2)	12	$30 \times 22 \div 60 = 11$	1	1	0.0909
(2,1)	20	$30 \times 38 \div 60 = 19$	1	1	0.0526
(2,2)	10	$30 \times 22 \div 60 = 11$	-1	1	0.0909
Total					0.287

$$\text{Calculated chi-square} = \sum \frac{(O - E)^2}{E} = 0.287$$

Degree of freedom = (r-1) (c-1) = (2-1) (2-1) = 1 × 1 = 1

Level of significance

$$\infty = 5\% = 0.05$$

$$= \text{Tab chi-square } 0.05 (1) = 3.841$$

Since calculated chi-square < tabulated, chi-square therefore null hypothesis is accepted and the alternative hypothesis is rejected. Therefore there is no significance difference between the tax experts and tax payers, regarding additional depreciation chargeable to industries.

APPENDIX-5

Classification of Districts on the basis of industrialization

<u>Remote Areas</u>			
Darchula	Sankhuwasabha	Mustang	Bajura
Bajhang	Humla		Khotang
Jajarkot			
Jumla	Manang		Bhojpur
Terhathum			
Kalikot	Dolpa		Mugu
Myagdi			
Ramechhap	Dailakh		Solukhumbu
Rukum			
Okhaldhunga			

<u>Undeveloped Areas</u>		
Rasuwa	Pyuthan	Baglung
Panchthar	Dadeldhura	Rolpa
Baitadi	Parwat	Gulmi
Taplejung	Sindhupalanchowk	Doti

<u>Underdeveloped Areas</u>

Surkhet

Dhading

Dolakha

Dang

Sindhuli

Sindhuli

Nuwakot

Udaypur

Gorkha

Illam