

**PROBLEMS IN TAXATION FACED BY MANUFACTURING
COMPANIES**

(With Reference to Patan Industrial State)

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RECOMMENDATION LETTER

This is to certify that the thesis

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(With Reference to Patan Industrial State)**

has been prepared as approved by this Department in the prescribed format of
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VIVA-VOCE SHEET

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

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled "**Problems in Taxation Faced by Manufacturing Companies (With Reference to Patan Industrial State)**" submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of Prof. Dr. Kamal Deep Dhakal of Shanker Dev Campus.

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TABLE OF CONTENTS

	Page No.
Recommendation	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	<u>vii</u>
List of Figures	<u>ix</u>
Abbreviations	<u>x</u>
CHAPTER -I: INTRODUCTION	1-14
1.1 General Background	12
1.2 Significance of the Study	21
1.3 Statement of the Problem	22
1.4 Objective of the Study	23
1.5 Limitation of the Study	24
1.6 Plan of the Study	24
CHAPTER - II: CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE	15-54
2.1 Conceptual Aspects	26
2.1.1 Tax	26
2.1.2 classification of Taxes	29
2.1.3 Historical Background	29
2.1.4 Major taxes in Nepal	33
2.2 Review of Related Studies	53
2.3 Research Gap	64
CHAPTER -III: RESEARCH METHODOLOGY	55-58
3.1 Research Design	66

3.2 Population and Sample	67
3.3 Sampling Method	68
3.4 Nature and Sources of Data	68
3.4.1 Primary Sources of Data	68
3.4.2 Secondary Sources of Data	68
3.5 Data Collection Procedure	69
3.6 Data Analysis Method	69
CHAPTER -IV: DATA PRESENTATION AND ANALYSIS	59-103
4.1 Revenue Structure of Nepal	70
4.1.1 Tax Revenue Structure of Nepal	73
4.1.1.1 Direct Tax Revenue	75
4.1.1.2 Magnitude of Direct Tax Revenue	76
4.1.1.3 Composition of Direct Tax Revenue	77
4.1.1.4 Indirect Tax Revenue	78
4.1.1.5 Composition of Indirect Tax Revenue	79
4.1.2 Non-Tax Revenue Structure of Nepal	80
4.1.3 Tax and Non-Tax Revenue in GDP	82
4.1.4 Direct Tax and Indirect Tax Revenue in GDP	84
4.1.5 Contribution of Income Tax	86
4.2 Empirical Study	88
4.3 Findings	111
4.3.1 Finding from Secondary Data	111
4.3.2 Findings from Primary Data	113
CHAPTER -V: SUMMARY CONCLUSIONS AND	
RECOMMENDATION	104-112
5.1 Summary	115
5.2 Conclusions	117
5.3 Recommendation	118
BIBLIOGRAPHY	113
APPENDIX-I: QUESTIONNAIRE	

LIST OF TABLE

	Page No.
Table No. 3.1: Group of Respondents and Size of Sample from Each Group	67
Table No. 4.1: Magnitude of Revenue Collection in Nepal	72
Table No. 4.2: Tax Revenue Structure of Nepal	74
Table No. 4.3: Magnitude of Direct Tax Revenue (Rs. on million)	76
Table No. 4.4: Composition of Direct Tax Revenue	77
Table No. 4.5: Composition of Indirect Tax Revenue	79
Table No. 4.6: Composition of Non-Tax Revenue	81
Table No. 4.7: Tax and Non-Tax Revenue as Percentage of GDP.	83
Table No. 4.8: Direct and Indirect Tax Revenue as Percentage of GDP	85
Table No. 4.9: Collection Performance of Income Tax Revenue	87
Table No. 4.10: Group of Respondents and Number	89
Table No. 4.11: Effectiveness of Income Tax Act 2058	89
Table No. 4.12: Views on adequate administrative and legal opportunities for redressing tax payers grievances	90
Table No. 4.13: Views on the profit of organization affected by present income tax	91
Table No. 4.14: Views on income tax related problems	93
Table No. 4.15: Views on widespread discretionary powers of tax officers	94
Table 4.16: Views on VAT in creation of complication in maintaining proper book system	95
Table No. 4.17: Views on penalties and fines imposed to the tax payers	96

Table No. 4.18.a.: Views on effectiveness of tax administration in Nepal	97
Table No. 4.18.b.: Problems on tax administration	98
Table No. 4.19.a: Views on effectiveness of present tax system	99
Table No. 4.19.b: Reasons for Effective Tax System	100
Table No. 4.20: Views on exemption limits in income tax to be provided to an entity	101
Table No. 4.21: Views on existing income tax rates	102
Table No. 4.22: Views on necessity of rebates to regular tax payer	103
Table No. 4.23: Views on complication faced in paying tax	104
Table No. 4.24: Major Reason of facing complication in paying income tax	104
Table No. 4.25: Views on problem facing in claiming tax refund in VAT	105
Table No. 4.26: View on pervasive nature of problems that hinder the tax structure of Nepal	106
Table No. 4.27: Adoption of tax planning system of the organization	108
Table No. 4.28: Views on necessity of special tax policy for manufacturing company	109
Table No. 4.29: Need of Tax benefit to the manufacturing industries	110
Table No. 4.30: Views on best income tax rate for manufacturing organizations	111

LIST OF FIGURES

	Page No.
Figure No. 4.1: Figure of Revenue Collection in Nepal	73
Figure No. 4.2: Trend of Composition of Tax Revenue	75
Figure No. 4.3: Composition of Indirect Tax Revenue to Total Tax Revenue	80
Figure No. 4.4: Tax and Non-Tax Revenue as Percentage of GDP	84

ABBREVIATIONS

C	:	Closed
CBS	:	Central Bureau of Statistics
CEDA	:	Centre for Economic Development and Administration
CIF	:	Cost Insurance and Freight
DRP	:	Duty Refund Procedure
FIFO	:	Free on Board
FSM	:	First Seven Months
GATI	:	General Agreement on Traffics and Trade
GDP	:	Gross Domestic Product
HS	:	Harmonized system
IEA	:	Industrial Enterprises Act
IP	:	Industrial Policy
ITA	:	Income Tax Act
LIFO	:	Last in First Out
MFN	:	Most Favored Nations
NCC	:	Nepal Chamber of Commerce
NG	:	Nepal Government
PL	:	Profit and Loss
SAARC	:	South Asian Association for Regional Co-operation
UC	:	Under Construction
UO	:	Under Operation
VAT	:	Value Added Tax
WTO	:	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 General Background

From ancient time to modern age, government fulfills its responsibility by spending a certain amount towards its people. In the ancient time government managed its fund by internal resources and spend in the war. Now the time has changed, from government to people all know their responsibility. Government is very careful towards its social responsibility and people themselves are too much concerned towards nation. They want to contribute a little amount of their income to the government and the government invests for peace and security, education, development etc.

Today, to achieve the more demanding social welfare of its nation the government must have sufficient fund. For this the government has two alternatives, one is internal and the other is external resources. Internal resources are convenient, certain and long different sources. In the word, most of the developing countries are well experienced regarding external sources and its negative impact to the economy. It is because nobody wants to invest a huge amount without benefit. So the best alternative for the nation as to mobilize internal sources that is certain, convenient and one should not beg its hand to other.

The main and reliable internal source is tax. Tax is compulsory contributed by a person without hoping and personal benefit. According to Frindley Shirrag "Taxes are compulsory contribution to the public authorities to meet the generate expenses of government which have been incurred for the public good and without reference to special benefits." The tax can be divided in to two parts, one internal sources and another external sources. Internal sources of funds are tax and non-tax

revenue. Among them tax is the most important source of government revenue because it occupies largest and part of total revenue. Tax is not a fine. Government collects tax with the permission of legislature to fulfill financial needs of the state. It is a compulsory payment to government for the composition of public expenditures. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of tax is to distribute wealth and income equally.

Tax is classified in two groups. They are direct and indirect tax. A direct tax is really paid by the same person on whom it is legally imposed. Tax payer cannot collect direct tax from other persons .Income tax, interest tax, contract tax, vehicle taxes are same examples of direct tax. Direct tax is paid according to the income or property earned by a person. An indirect tax is imposed on one person but paid partly or wholly by another example of indirect taxes are customs, excise, contract tax ,value added tax etc. There is uncertainty about the collection of indirect tax. Every person either rich or poor pays equal amount of tax on receipt of goods or services. So, it seems as regretful for poor person.

Taxes can be classified into two types according to the firm. They are direct and indirect tax. Direct tax is a tax on income and property. The characteristics of a direct tax are equitable as per the property or income, certainty as per the process of payment to be paid, time of payment, elastic in nature etc. The examples of direct tax are income tax, property tax, vehicle tax and inheritance tax. (Kandel, 2003: 8)Indirect taxes are those taxes, which are collected from the goods or services, used. These taxes can be shifted by the tax-payer to some other persons or organizations. The examples of indirect taxes are VAT, sales tax, Excise duty, Entertainment tax etc.

Income tax is a personal tax imposed on the income of individuals and corporation. According to tax economists." An income tax is a levy imposed

up on the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the payer from all sources and is graduated on a special system of exemption. "The concept of income tax differs in different countries. In United Kingdom the original concept of tax was applied to five schedules. In United State of America, income tax is viewed, as a matter of practice, recurrent is not relevant to the tax status. In India, the personal income tax is levied on the net of all individual, joint Hindu families, unregistered firm and other associations of person (Due & Fried Lander. 1977:111). Income tax can easily be modified to give elasticity in raising revenue and is highly productive, in a developing country like Nepal. Income tax is the major contributor towards government treasury among direct taxes.

Income tax helps to prevent the concentration of wealth in a few hands by imposing higher rate to those persons where income is high and lower rate to those persons whose income is less it also helps to increase the government revenue, which can use for good governance, to develop infrastructure, provide general services etc. Income tax is not only essential for collecting government re/venue but also to control over consumption, to promote saving and to generate more employment. (Nyaupane, 2005:2)Income tax system was introduced in England in 1799 to manage the War. Similarly, corporate income tax originated in USA in 1862 in order to manage the civil war. In 1909 federal corporation income tax was originated in Nepal. Income tax was imposed in 1959 by enacting Business, Profit and Remuneration Tax.

In earlier days both individual and corporate tax was taxed on progressive rate. Now the income tax Act 2058 B.S has been implementing since 2056 Chaitra. Income tax plays a vital role in Revenue collection in National economy. It is a tool for achieving maximum social economic objectives as laid down by the constitution of Nepal. Today tax is the

major instrument for the government to achieve the rate in economic growth and to increase in capital formulation. Ancient tax system was based on Vedas, Smritis, and Purans directives propounded by Manu, Yagyabalaka, and Chanakya etc guided the taxation system. At that time the principle of collecting tax from the people was imposing of tax without harming the activities of the people.

Industry

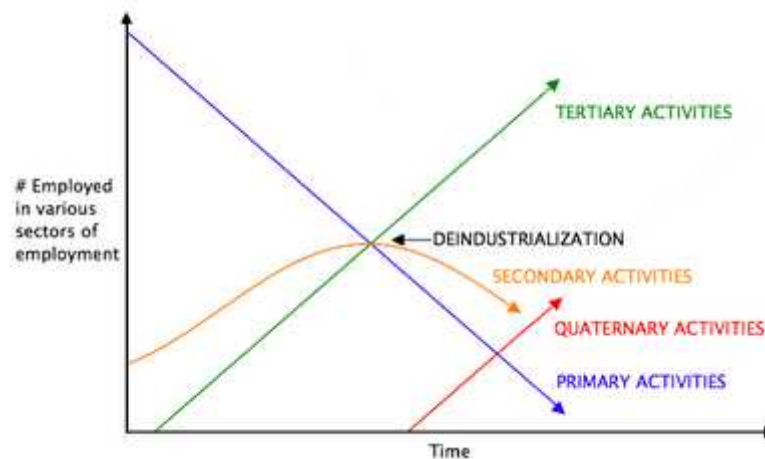
An industry (from Latin *industrius*, "diligent, industrious") is the manufacturing of a good or service within a category. Although industry is a broad term for any kind of economic production, in economics and urban planning industry is a synonym for the secondary sector, which is a type of economic activity involved in the manufacturing of raw materials into goods and products.

There are four key industrial economic sectors: the primary sector, largely raw material extraction industries such as mining and farming; the secondary sector, involving refining, construction, and manufacturing; the tertiary sector, which deals with services (such as law and medicine) and distribution of manufactured goods; and the quaternary sector, a relatively new type of knowledge industry focusing on technological research, design and development such as computer programming, and biochemistry. A fifth quinary sector has been proposed encompassing nonprofit activities. The economy is also broadly separated into public sector and private sector, with industry generally categorized as private. Industries are also any business or manufacturing.

Industry in the sense of manufacturing became a key sector of production and labour in European and North American countries during the Industrial Revolution, which upset previous mercantile and feudal economies through many successive rapid advances in technology, such as the steel and coal production. It is aided by technological advances,

and has continued to develop into new types and sectors to this day. Industrial countries then assumed a capitalist economic policy. Railroads and steam-powered ships began speedily establishing links with previously unreachable world markets, enabling private companies to develop to then-unheard of size and wealth. Following the Industrial Revolution, perhaps a third of the world's economic output is derived from manufacturing industries—more than agriculture's share.

Many developed countries (for example the UK, the U.S., and Canada) and many developing/semi-developed countries (People's Republic of China, India etc.) depend significantly on industry. Industries, the countries they reside in, and the economies of those countries are interlinked in a complex web of interdependence.



Source: From Wikipedia, the free encyclopedia

Industrial Development

The industrial revolution led to the development of factories for large-scale production, with consequent changes in society. Originally the factories were steam-powered, but later transitioned to electricity once an electrical grid was developed. The mechanized assembly line was introduced to assemble parts in a repeatable fashion, with individual workers performing specific steps during the process. This led to significant increases in efficiency, lowering the cost of the end process. Later automation was increasingly used to replace human operators. This

process has accelerated with the development of the computer and the robot.

Historically certain manufacturing industries have gone into a decline due to various economic factors, including the development of replacement technology or the loss of competitive advantage. An example of the former is the decline in carriage manufacturing when the automobile was mass-produced.

A recent trend has been the migration of prosperous, industrialized nations toward a post-industrial society. This is manifested by an increase in the service sector at the expense of manufacturing, and the development of an information-based economy, the so-called informational revolution. In a post-industrial society, manufacturing is relocated to more economically-favorable locations through a process of offshoring.

Nepal has a mixed economy. It is majorly dominated by agriculture but in recent years the non agricultural sector is contributing more in G.D.P. than the agriculture sector. Public and private manufacturing industries were established with the objective of balanced regional development. Public welfare, employment generation, import substitution and the export promotion for dissemination of the development activities according to national priority.

Today industrialization and foreign trade are the well – known phenomenon for economic growth throughout the world. They are the effective means of achieving economic development in the developing countries like Nepal. Nepalese economy is agriculture dependent. More than 80 % of economical active population is dependent on agriculture. Agricultural contribution for G.D. P. is nearly about 40 % of total G.D. P. Industrialization is an important factor economic and social development . In fact industrialization and development are two sides of a

coin. Economic development is not possible unless industrialization takes place. Industrialization is a measuring rod whether a country is in prosperity or not industrial development has a multiplier effect on the economy in the sense that it not only provides goods and services but also creates employment opportunities.

Furthermore, it facilitates an effective mobilization of resources of capital and skill which might otherwise remain unutilized. It also acts as a vehicle for fostering innovation and technological improvement. Last but not least, it generates the government revenue in the form of direct tax and indirect tax which is further deployed for industrial development and in turn, accelerates the pace of economic development. “Industrialization for industrial development can rigidly and sufficiently substitute the meaning of economic development. This is because industrial development unfailingly leads the country to the glorious heights of economic development. This is what the developed countries reveal and confirm. And certainly this is industrialization which finally made them development from developing” (Cutt James, 1969: 312).

Growth of Industries in Nepal

Industrialization is a comparatively new phenomenon in Nepal. The pace of industrialization has been quite slow in the context of Nepal. Till 1935 the industries in Nepal were limited to various crafts and cottage industries which produced artistic products. Cotton and wool textiles, paper products, rope and baskets, shoes and leather products, wood products and metal products based on iron, copper, gold, silver, brass bronze etc.

The Biratnagar Jute Mills set up in 1936 in collaboration with India marked the beginning of organized industry in the country. In the years that followed industrial growth was accelerated. Industries like the Morang Cotton Mills (1941), the Morang Sugar Mills (1946) and

Raghupati Jute Mills (1946) were set up. All these industries were established haphazardly in order to reap quick benefits from the shortages of consumer goods created by the second world war. Within a period of 10 years (1936-1945) as many as 63 industrial units were established with a total capital investment of Rs. 72 million of which only Rs. 2 million was invested by Nepalese businessman. After the end of second world war, most of the industries were liquidated since they could not sustain the post war recessionary effects. These short lived industries were thus wartime babies whose demise caused a big set back to the process of industrialization.

However, the government of Nepal started to emphasize on industrialization under the ages of development plans after the down of democracy in 1951 since then Nepal has been undergoing a rich experience of formulating and implementing ten development plans extend over a period of more than four decades.

The first five year plan introduced industrial policy in 1957. A series of revisions were made in subsequent years. It was announced with a purpose to upgrade and promote private industries. It was revised in the year 1960 with a motive to attract foreign investment and to facilitate financing.

The industrial development center was established in 1957 which was converted to Nepal Development Corporation in 1959 with a view to provide financial and technical assistance to private sector industries. It was in the second five – year plan that the industrial estates were established for the promotion of industries in the country. With a view to industrialize enterprises at one spot. Overall 11 industrial estates were established until now.

Within the fourth plan in the year 1973 a new Industrial policy was formulated in the year 1973. In 1981 a new Industrial policy was

declared and the main features of the policy was that all industries were kept open to the private sector except for the defense industries.

The industrial policy helped the establishment of industrial promotion board. The Industrial Enterprises Act 1982 and foreign investment Act 1982 were also enacted. During the eight five year plan Foreign Investment and Technology Act 1992 and foreign Investment and one window policy 1992 were introduced to attract foreign Investment for speeding up industrial development (Bajrahcarya, 1985:21).

According to the census survey of manufacturing establishment 4230 industrial establishment was found on providing 212007 people in 2000 – 2001.

These establishments paid Rs. 3.058 million as wages and salaries including prerequisites to their employer, but as per the census survey of 1996-97 no of establishments decreased to 3557 making Jobs to 1,96,708 people. Total wages and salaries distributed to the gainful employment were found to be 4058069 thousand Rs. Which is 21929,718 thousands Rs. More than previous year. The census value added equals to 21875315 thousands Rs. according to the survey of small manufacturing establishment in Nepal made by Central Bureau of statistics for the year 2002 number of manufacturing establishment in Nepal were 43671 providing jobs to 121270 person in the year 1999-2000. These establishment paid 1104167 thousand Rs. As wages and salaries . Census input and output during the year 1999-2000, were 192705302 thousand Rs. and 25945645 thousand Rs. respectively and census value added was 6675113 thousand Rs. In the year 2000 - 01 the number of new industries registered in the Department of Industries were 148 which were less than previous year 1999-2000. Among total registered

industries in the year 2004 – 05 there were 143 private limited , 10 in public sector and one each of partnership and proprietorship.

Today, effective implementation of the national economic policies facilitates to enhance of manufacturing industries, promotion of export and import of goods and services. To speed the phase of economic development various act and regulations were enacted with the motive privatize and liberalize industries. Government has adopted the policy of permitting 100% foreign investment for large and medium scale industries. Government has adopted one- window policy to facilitate the industrial investment but for the proper growth of industries sufficient infrastructure is a must. Various public enterprises established during the planning era are not good condition . Frequent changes in government policies are one of the basic reasons for the negative performance of industries. Thus clear and simple policies providing definite facilities for a longer period of time are the primary requisites for industrial development (Agrawal, 2005: 27).

1.2 Significance of the Study

Tax plays significant role in the overall economic development in developed as well as developing countries. Nepal is one of the lowest taxed economic in the world as its tax GDP and tax GNP ratios are the lowest among SAARC countries and among the rest of the world as well. This shows poor performance of all management in Nepal. The portion of indirect tax is greater than direct tax. However it should be just reverse for economic welfare.

The importance of industrial development for the economic needs not to be exaggerated one of the remarkable contributions made by industrial sector for the economic is generation of government revenue through taxes. Total tax revenue generated comprises of high percentage

of the levies of the industry. Moreover tax revenue contributes to three quarter to the total revenue of our economy. So it has become very necessary to streamlining has to be done in such a way that it has positive impact upon the growth of industrial sector. There is a strong inter relationship among taxation policy business and economic growth.

There are so many sources of tax revenue like sales Tax/ VAT custom duty, Income tax and excise duty. Almost all of the above mentioned tax revenues are generated from business sectors. Thus tax should not be imposed in such way that creates difficult environment for business firms even to survive.

The final impact of this will be on the economy less the income generated from business less will be tax revenue and in turn the total revenue. In order to safeguard the interest of industrial sector, industrial enterprise act 1992 has been formulated and implemented. Patan Industrial Area is also one of the Major Industrial area of our country. It also contributes tax revenue to support total tax revenue of government. It is the responsibility of government to provide certain facility to promote this area and control mechanism also used to resist tax evasion which decreases tax revenue collection.

1.3 Statement of the Problem

A sound tax system is one of the essential requisites for an economic development. Thus different taxation policies have been introduced and renewed on timely basic with a view to mobilize internal resources for the development industrial sectors and consequently contribute to economic growth and reduce dependency on foreign loans in Nepal. However the purpose of the taxation policy has not been fulfilled neither turns of stimulating industrial growth. Some tax payers complain about the lack of clarity, predictability and consistency in tax

laws across time and with other existing regulations. It has been observed that tax laws change frequently and they have been unable to predict the way by which these changes will go .

On the other hand, some others are dissatisfied with the administration of tax laws further, there has been a big gap between formulation of policies and its implementation. This study will analyze the existence of such gap in the taxation policies and suggest measure to downsize the gap. Further, the study has tried to find out the problem of manufacturing industry in Nepal (specially fifteen industries of Patan Industrial Estate) as a result of prevailing policies by addressing the following research questions.

- Does present taxation policy help for providing conducive environment required for industrial growth ?
- Whether improper formulation of taxation policy is the main cause of the problem faced by industrial sector ?
- Does taxation policy provide adequate incentives for stimulating private investment, export promotion and import substitution ?
- Does evasion of tax by some of the tax payers create problems for the entire industrial sector ?
- Does taxation policy encourage emerging of new industrial sector ?

1.4 Objective of the Study

The main objective of the study are to find the tax problem of manufacturing company specially situated at Patan industrial state. The specific objectives are as follows.

-) To evaluate the effectiveness of present taxation system of Nepal.
-) To identify the problems faced by Patan Industrial Sector on comprising with tax procedure.

-) To evaluate the contribution of tax to the total revenue structure of Nepal.
-) To suggest remedies for successful implementation of various taxation of Nepal.

1.5 Limitation of the Study

Some of Limitation of the study are as follows.

-) The study concern only those manufacturing industries which arte specially situated at Patan Industrial area. It does not include all type of manufacturing industry.
-) Due to the limitation of time period each and every aspect of taxation policy was not covered.
-) The reliability of the study depended largely upon the reliability and validity of the primary and secondary data.
-) The sample size being confined to only manufacturing establishments of Patan Industrial area might not provide exact result.
-) The study had covered the period of last seven years i. e. from fiscal year 1998/99 to 2007/08.

1.6 Plan of the Study

This study is divided into five major chapters, which are as follows.

-) Chapter one: This is the introduction chapter. This chapter includes background, statement of problem, objective of the study, significant of the study and limitation of the study.
-) Chapter two: This chapter includes conceptual aspects of tax and review of related available studies.

-) Chapter three: This the research methodology chapter. This chapter includes research design, population and sample source of data, data collection procedure etc.
-) Chapter four: In this chapter data are presented, analyzed and interpreted by using statistical tools, mathematical tools and other accounting and financial tools etc.
-) Chapter five : The final or last chapter contain the summary of the whole study. The conclusions of the study have been presented and at last suitable concrete measures suggested is the form of recommendation. Bibliography and appendixes are incorporated in the end of the study.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Aspects

2.1.1 Tax

The government of any country needs sufficient money to lunch the development programs, to handle the daily administration, to keep peace and security and to lunch other welfare programs. When there is no money; no departments or lower level offices of the government work as the parts of the body stop working when there is no blood circulation. The government collects revenue from different sources like tax, price of goods or services provided by the government, receipt from public enterprises, fees, fines, grants etc. In short, all the sources of the government revenue can be divided into two parts- tax and non-tax. Tax is the major source covering most part of the government revenue.

Tax is a compulsory payment to the government. Taxpayers do not get any direct benefit from the state by paying tax. Tax is not a fine. Government collects tax with the permission of legislature to fulfill financial needs of the state. Tax is a compulsory payment to government for the compensation of public expenditures. Tax fulfills the needs of central work. The main objective of tax is to distribute wealth and income equally. Mainly, tax is classified in two groups. They are direct and indirect (Adhikari, 2003).

Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honesty. Many economists are of the view that the tax is a compulsory payment to the government by taxpayer without any expectation of some specified return.

According to Plehan, "Tax is general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states" (Dhakal, 2002:2).

According to classical economist Dalton "A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence."

According to P.E. Taylor, "A tax is compulsory payment to the government without expectation of direct benefit in return to the tax payers" (Pokharel, Amatya and Dahal, 2004:3)

According to Findlyshirras, "Tax is 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" (Lekhi, 2000: 146)

From the definitions given above, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. Taxpayer does not have any right to receive direct benefit from the tax paid. The taxpayer cannot receive equivalent benefit from the government. Amount collected through taxation is spend for common interest of the people and it is collect from natural and artificial person.

Many economists have classified taxes into several categories but the major categories of taxes may be direct and indirect taxes. If a person has to pay directly the tax liability to the government, such tax is known as direct tax. A direct tax is really paid by the person on whom it is legally imposed. The taxpayer cannot collect tax from other persons. Income tax, Gift tax, interest tax, property tax, vehicle tax, house and land

tax, and contract tax are some example of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and property. Direct tax has a quality of certainly, the taxpayers are informed about the amount, time and procedure of payment. Taxpayer can easily estimate his tax liability. The government can easily increase or decrease according to proper economic situation of the country. Taxpayers pay tax from their own property, so they conscious about their contribution.

An indirect tax is imposed on one person but paid partly or wholly by another. The examples of indirect taxes are customs, exercise, value added tax etc. indirect tax is transferable. People pay tax when they receive or consumed goods or services. Therefore they don't feel burden to pay lumpsum. There is mass participation because every person who receipt goods and services, pay tax Indirect tax is flexible. Indirect tax can changes at higher percent to discourage the harmful goods.

There is uncertainty above the collection of indirect tax. Every person either rich or poor pays equal amount of tax on receipt of goods or services. Therefore, it seems as regretful for poor person. If tax imposed on higher rate, consumption reduces and also effects badly on production and employment.

In classical economics, tax was taken as an extra burden to the people and the economists were in the fervor of small government, which only had to maintain law and order in the state. But now time has changed and the government has to provide maximum social welfare to the people. Thus the government has to burden its revenue. Income tax is a direct tax. In case of Nepal, income tax is the major source of direct tax revenue.

2.1.2 classification of Taxes

There are two types of taxes named direct tax and indirect tax

1. Direct tax
2. Indirect tax

1. Direct tax :

A direct tax is really paid by the same person on whom it is legally imposed. The examples of direct tax are given below.

- a. Income tax
- b. Property tax
- c. Vehicle tax
- d. Interest tax
- e. Death tax
- f. Contract tax
- g. Expenditure tax

2. Indirect tax :

An indirect tax is imposed on one person but paid partly or wholly by another. Type of indirect tax are given below

- a. Custom duty
- b. excise duty
- c. value added tax
- d. entertainment tax
- e. passenger tax
- f. hotel tax
- g. others

2.1.3 Historical Background

The concept of income tax was only introduced in Nepal after first budget speech in 2008 B.S. However, it was actually introduced only in

2017 when the Finance Act 2016 and Business Profits and Remuneration Tax Act, 2017 were enacted. But this act was not so profound and explanatory. This act, which had total 22 articles authorized that the tax can only be imposed on profit generated from trade and remuneration from employees. Since this act could not cover all the sources of income and so was replaced by the Income Tax Act 2019. This act had 29 sections in total. His Majesty's Government formulated Nepal Income Tax Act 2019 for the implementation of just aforementioned act.

Nepal Income Tax Act 2019 not only included the trade profit and remuneration within tax bracket but also included profession house and land, rent investment, insurance and other related items. This new act made such provision that taxpayer could make mathematical correction and pay the tax in installments. Later on, Finance Act 2023 made such provision that there would not be tax imposed on agricultural products.

But later on Finance Act 2030 imposed tax on agriculture. Nepal Income Tax Act 2019 got its first reformation in 2029. Thereafter, knowing the necessity of change and modernization in income tax act management according to the prevailing situation of country, His Majesty's Government released new Income Tax Act 2031 by replacing Income Tax Act 2019.

This act having 66 sections classified the sources of income into 5 namely a) Agriculture b) Industry business c) Remuneration d) House and land rent and e) Other sources.

This act was revised for 8 times in 2034, 2036, 2037, 2041, 2043, 2046 and 2049 B.S.

This reformulated law was dissolved in 2058 making a new Income Tax Act 2002 (2058).

Income tax act 2058 was enacted with affective from 2058/ 12 / 19 with regard to tax assessments and collections relating to accounting year 2057,58 and back ward. The previous income tax act 2031 was applicable for the period of 9 month is that particular year and this new income tax Act 2058 was fully implemented then after the income tax Act 2058 has 143 sections.

a. Taxation in Ancient Nepal

There are no truth records about taxation in ancient and medieval period in Nepal. However, taxation takes its earliest form in the actions of petty rules, scattered in various parts of the country which extracted levies and to us from the travelers and merchants. Although land tax was the major source of revenue in ancient Nepal, there did exist irrigation tax and religious moment's preservation tax in the time of king Amsuvarma of Nepal. There was tax for publication of castes as well as cremation of the dead. In ancient Nepal, taxes were levied in the form of cash and kind. Specific portions of agricultural product were payable to the king as tax. There also existed tax payable in gold, fixed taxes were levied in the villages. Compulsory manual were from all artesion and labourers was also a common way of paying taxes. The nature of taxation was temporary and taxes were raised for special purposes (Agrawal, 1980: 42).

b Taxation during Unified Nepal (1768 – 1816)

In shah period also there was contribution of the tax system as Malla period, i.e. based on land and trade. After unification different types of taxes like land tax, transit tax, forest product tax, mining tax, market duties were levied. There were different types of taxes like walak, Gaddimuderk, Chumawan and Goddhywa walak was collected from each family to celebrate national festivals. Gaddimudarak was for financing

coronation ceremony of the new king. Chuman and Goddhwa were the taxes to be collected in the time of ceremony of conferring office or rank and marriage ceremonies of Royal princes and princesses. Godan was used to collect tax for funeral ceremony of reigning king. Prithivi Narayan Shah introduced pota tax in 1772 A. D. This system of tax was based on flat rate system and limited on small brita owners (Pant, 1969: 17).

c. Taxation during Rana Regime in Nepal (1847- 1951)

Imposition and collection of taxes during the 104 years oligarchic rule of the Rana family in Nepal prior to 1950 was the prerogative of the feudal rules only those taxes were imposed to suit the objectives, needs and whims of the then ruling prime ministers.

Income and expenditure of the state were not made public. No budget was ever framed during the Rana Regime. There was no difference between the income of the state and the income of the then prime minister.

The major sources of revenue in Nepal till 1951 were land tax, custom and excise duties in the form of lump sum contract, royalties on felling of trees, royalty on supply of porters and soldiers, entertainment tax, and a few other minor taxes there was no direct tax in the country except land tax collected on a contractual basis and “salami” which the government employees used to pay according to their salaries at a very small percentage. The “salami” was abolished in 1951. Since most of the revenue in Rana Nepal was collected by award of periodic contracts, the need was not felt for the development of effective revenue administration system (Pant, 1969: 22).

The Rana rule was thrown away in 1951. Since then no taxes are levied and collected in Nepal except in accordance with the law.

2.1.4 Major taxes in Nepal

Nepal government collects revenue from different sources. Right now, the types of these taxes are around twenty four. However, from revenue view point, only four or five types of taxes are important from the business community point of view too these taxes matter. The following are certain taxes, which the business community should encounter during day to day business life and which provides most of the revenue Nepal Government (Khadka, 1997:26).

a. Custom duties

Among the various forms of indirect taxes custom duty is the domineering one not only among the indirect taxes but also among all the taxes in general. Custom duty is an indirect taxes levied on the imported or exported visible goods at the boundary of the country concerned. Custom duty is only the internal source of Nepal to finance development.

The chief purpose of custom duties are the raising of revenue and the protection of domestic industries or a combination of both. Where custom duties are imposed on goods which do not compete with domestic products or where the merely compensate for equivalent taxes or home production.

Custom duty is a tax levied on imports and exports of commodities. But its coverage is not limited to only export and import duties but also composed of export service charges countervailing duties and Indian excise refund.

Import duties are the most important and most common type of custom duties. The customs imposed and imported goods is called import duty. They may be levied either for revenue or protection.

Similarly export duties are levied on goods exported from Nepal. The main function of export duties was to safeguard domestic supplies rather than to raise revenue. Export duties are generally levied on raw material producing countries. It is found that if the primary objective of the export duty is revenue rate are usually low to the extent that export duties raised the cost of raw materials to foreign manufactures relative to the cost of manufactures in the exporting countries.

Export service charges are imposed on those exports which are not subject to export duties. Countervailing duties are levied on imported goods to offset the effect of excise duties on domestic products. This can be made clear by the statement made by the indirect taxation enquiry committee of India, an equivalent addition should be made to the import duty to ensure that the protection provided by import duty domestic industry is not eroded.

The third one which is also been included in the custom revenue administration is of unique importance to mention here is revenue collected by government of India. Which is called custom treaty revenue of India excise refund. "This is the second highest contribution of custom's component after duties. Its revenue significance is more than export tax. The 1953 treaty provision has been made that the articles which is subject to Indian excise duty has been imported to Nepal for its domestic consumption order AR-1 from had reached Nepal means the fund of excise duty paid to Indian consumption has to be returned to Nepal. This is called Indian excise refund system which has a very good revenue significance for Nepal (Pant, 1984:14).

Evolution of custom Duties in Nepal

Before 1951 the sole responsibility of custom revenue administration was left on 'Rakam Bandobastha Adda'. In those days,

there was a system of contract type of custom administration. The contractor after getting the custom office in bid, used to levy import and export tax for their own profit. The contract system was not related to the fiscal system of the country, but was motivated by the personal interest of earning more. After paying certain amount of revenue annually to the 'Rakam Bandobasta Adda' the contractors motive was to tax as much as he ca. Thus the contractors were efficiently pursuing their profit maximization policy through the custom check-post on the other hand 'Rakam Bandobasta Adda' has easy to collecting of contract check – post money .

The easy earning of revenue by 'Rakam Bandobasta Adda' and profit maximization policy of contractor went hand in hand in some sense part custom system was no less efficient than the present one. But the situation changed after the publication of first budget in 1951. Now it was realized that the revenue maximization is not the only goal of custom system. Thus, in 1955 a separate department of custom and excise was established.

It started to regulate custom and excise administration directly without the help of contractor in 1966, excise administration was separated from custom office. At present there is a direct link between the custom revenue department and the tax payers.

Custom Tariff

The custom tariff in Nepal is based on the harmonized commodity description and coding system. Nepal has been adopting this system since 1992/93. Presently Nepal's custom tariff is based on the its 2002 version which was enforced as the third amendment on the Harmonized System by world custom organization in January 2002 under this system. There are two schedules, schedule 1 gives some explanation regarding the

rate of import duties and the rate applicable to different goods where as schedule 2nd gives the rate of export duties.

The development trend of custom duties in Nepal reveals that one of the significant developments made in the history of custom duties is the change in tax rates which is mainly done for revenue purpose. Before 1987 the rate of custom duties varied according to their sources. Items imported from countries other than India, Tibet and countries with most favoured status were subject to general rates which were higher than any other rates. It was in 1987/88 that the custom Tariff was rationalized when only 12 basic rates (5, 10, 15, 20, 25, 30, 50, 70, 100, 110, 150 and 200) percent were levied on imports irrespective of origin and four additional duty rates ranging from 25 to 55 percent tied up with the basic rates. The change in the basic rates have been made in almost every fiscal year. In 1999 /2000, there were seven rates of import duties. They were 5, 10, 15, 25, 40, 80 and 130 percent which existed till 2002/03. However, respectively against the earlier duty of 130 and 80 percent respectively. This has reduced the upper ceiling of custom duty to 80 percent only. At present, prevailing custom rate are 5, 10, 15, 25, 40, and 80 percent. Similarly, import duty on Computer and Computer parts have been reduce to encourage information technology a special fee of 2.5 percent is levied on goods of import value at the custom points. However, a special fee of 0.5 percent will be levied on imported goods of up to 5 percent custom and no special fee is levied on the goods below tariff rate of 2.5 percent one and half percent local development fee is levied on imports at custom points.

In case of goods produced in and imported from India, a rebate of 20 percent is granted to those items that are subject up to 40 percent but only 10 percent to those items subject to import duties above 40

percent. Similarly a rebate of 10 percent granted to the goods produced in China and imported through Tibet autonomous region a rebate of 5 percent is granted, shipping and LC opened in MFN countries. All these rebates are applicable to the goods produced in the SAARC countries under LC is granted a rebate at a specified rate on specified goods under SAPTA agreement . Such rebate is not granted if rebate is already applicable for importing from India or improving from countries having MFN status.

Equalization duty/Countervailing duty is levied on goods imported to the kingdom of Nepal from foreign countries as per the tariff rate of excise duty changeable on goods produced or likely to be produced in Nepal. Such equalizing duty is charged for all goods specified in excise duty even if any of the goods has not been produced in Nepal.

Export are charged very minimum rate due to government's policy to promote exports. In case of many items only a service charge of 0.5 percent on the exports value is levied. At present, there are specified duty rates on some exportable items such as pulse, rice bran, oil cakes, stone sand, magnetite, cutch of acacia etc. in other commodities (other than specified in the tariff). The export duty ranges from 0.75 to 10 percent on export duty is to improve record keeping at customs point and ensure adequate supply of materials to domestic industries.

b VAT

Concept

Value added tax (VAT) is the latest advanced finding in the field of taxation. VAT is the supplementary of sales tax, entertainment tax, contract tax, hotel tax. It is the tax imposed on value added by business

firms on good and services at the successive stages of production and distribution. During the successive stages of production and distribution of goods and services, business firms and the by handling or processing VAT is levied on such value added in each stages. Value added implies the difference between purchase price and the selling price. Thus, value added includes the entire expenses incurred in the process of preparing the foods for sale after purchase plus the profit margin. Unlike in the sells tax is imposed in each stage like import. Production wholesale distribution and retail distribution, Thus, the tax liability at each stage is based on the value added difference between the value added is difference between the value of outputs and value of inputs.

VAT is levied at a single rate of thirteen percent. However, in certain cases the rate may be zero and certain goods and services are exempted from VAT in the context of Nepal. VAT is the first largest source of total tax revenue.

Evolution of VAT in Nepal

It had not been even half of the decade that VAT was introduced in Nepal. It was in 1990 i.e. after restoration of democracy the new government took a number of measures to liberalize the trade, investment and finance in his f/y 1992/93 budget speech announced that VAT on domestic production would be applied on the experimental basis for the fiscal year 1992/93. During that period a two – tier sales tax system was in existence under which dealers and distributors of selected items as well as sole distributors of agents of the foreign firm / companies and their whole sellers were required to register for the purpose of collection of sells tax.

As a part of liberal economic policy, HMG asked donors to study the VAT system. A VAT tax force was created in the sells tax and excise

department in 1993 with the assistance of United States agency for International development(USAID) and Consultancy Assistance for economic reform (CAER). However, due to political instability and frequent changes in the priority for the implementation of VAT, task force was dismantled.

Nevertheless the VAT, was finally passed in 1995 by the parliament . The government in 1996 approved, VAT regulates and in the same year the department of sales tax and excise were named as the department of value added tax. In the beginning, the VAT was scheduled to be effective from July 1997. The government planned to register the potential tax payers in VAT from this period in supporting of VAT, the government decide to rationalize the tax structure by reducing the rate of income tax, sales tax and custom duties in advance. On the other hand most of the businessman showed their dislikes to the VAT. Issue of VAT creative a conflict between the government and private sector. The private sector gave so much pressure that the government was forced to postpone the date of effective VAT for further four months and as such, VAT was scheduled to be implemented from November 16, 1997. Actually, there has been a lack of a comprehensive co- ordinate approach on the part of government.

This is because in support of VAT, the government lowered the rates of all taxes i.e. income tax and custom duties in July 1997 whereas VAT was introduced from November 1997. Tax payers had already forgotten these reduction in rates by the time the VAT was introduced. Thus, VAT was opposed and could not be effectively implemented even from 1997 in order to stop the protest against VAT raised by the tax payer the government addressed few issues that were asked by the

businessmen. Finance bill 1998 incorporated certain changes which are as follows:

- The threshold was increased from Rs. 2 million to Rs. 3 million.
- Cottage industry got relief from the registration of VAT.
- A special arrangement to be provided to settle the old stock of businessman.
- The rate of interest was reduced to 15 percent from 18 percent.
- The rate of penalty for the late filing of return fixed at 0.1 percent per day instead of 10 percent.
- Tax officers were empowered to issue a tax assessment if taxpayer cannot justify the reason for under invoicing.
- A list of exempt items increased.

Despite the above mentioned and other liberal provisions, the businessman continued to oppose the VAT system. Finally both parties agreed not to implement the provisions mentioned in the finance act until they reached an agreement. Ultimately both parties agreed on 39 points on September 1998. Most of the agreed points were in connection with the further exemption and concession in various fields of VAT as well as other taxes and few of them were in adverse direction of VAT Principle.

With a purpose to integrate VAT and tax department into one department a provision was made in finance act 1999 that a PAN (Permanent Account Number) will be allocated to the registrant of income tax from that year. Issuance of PAN was accessible to all tax payers of the country from December 16, 1999 after the establishment of inland revenue department. For the simplification of management of data, a data base computer system has been developed since the inception of VAT in Nepal (Basnet, 2002).

The government merged the VAT department into tax department on April, 2000 with a view to provide all services from the same window and to make effective mobilization of internal resource. The government announced to establish “ Inland Revenue Department” from July 2000 through the budget speech for F/y 2001/02. The newly established department will administer the following taxes from the same window.

1. Income tax (individual and corporate tax, remuneration income tax, interest tax, house rent tax)
2. Value Added Tax
3. Certain fees and duties like entertainment fee (Film development fee), tourism development fee, liquor control duty smoking and liquor duty and special fees
4. Non – tax revenue (Dividend principal and interest payment, royalty charges and fees)

Basic features of VAT applied in Nepal

Consumption type of VAT

Most of the countries including Nepal adopt this type of VAT. Under this type, capital goods purchase are exclude from the tax base. This means that the full value of the investment goods at the time of purchase can be deducted from the tax base. It allows a tax credit at the time of purchase. However, depreciation is not deducted from the tax base in the subsequent year.

Consumption type of VAT = Gross domestic product – cost of intermediate goods – cost of goods.

Tax credit method

Among the various methods of calculating VAT, our country has adopted tax credit method which is also known as indirect subtraction

technique or invoice method. Under this system, VAT liability is calculated by deducting tax on input from the tax on output during a taxable period i.e. net VAT liability = tax on sales – tax paid on purchases.

This method is useful in those uses where it is required to reduce the rate of value added at same stage in production and distribution process for administrative reason without reducing the total tax paid on total value added. The reduced tax at the earlier stage simply gives rise to and equally increased tax at a later stage.

Destination principle

Under this principle goods and services are not taxed at the place where they are produced or rendered but the place where they are consumed. Alternatively all imports are taxed while all kinds of exports are exempted from tax. The main benefit arising out of this is non – discrimination between import and internal production. This is the most popular form of principle of VAT adopted by a large number of countries. This principle support for export and many countries are eager to best export therefore they follow this principle. The equal treatment is provided for imports and domestic production which fulfills the criterion of tax being neutral.

VAT threshold

Small vendors having an annual turnover up to certain amount are not required to register under VAT . the amount fixed for this purpose is known as threshold. In Nepal the current threshold of VAT is Rs. 2 million per annum. Suppliers of taxable goods and services who fall above the registration threshold should compulsory register in VAT and

collect VAT. If suppliers deal with only tax exempt goods and services, they are not required to register. Likewise, business with taxable annual sales of under Rs. 2000,000 may voluntarily apply to register in the Inland Revenue office. Also importers whose annual imports are more than 2 lakhs should register in VAT.

On the threshold front also, two kinds of opinions have been expressed. One category of people have expressed that the threshold system should not be implemented while the other category of people have opined that the threshold should be increased. However, both opinions are not viable in the present context it would not be practical to include small traders in to the VAT net as it involves a lot of administrative complications. As such the need of threshold arises. On the other, if the threshold is increased, this would not bring adequate businessmen in to the tax net. The provision of threshold may also bring some malpractice like businessmen showing low turnover to remain out of the tax net. The VAT administration should be alert on this matter.

Exemption and Zero rating

Mainly there are two approaches for freeing tax on certain goods and services on the basis of social and administrative grounds. They are exemption and zero rating method.

Exemption Technique

Exemption means an exclusion of a certain kind of business transaction or a person (who is engaged in supplying goods and services) from the tax net. An exempted person does not have to fulfill the formalities eg. Registration, keeping account, issuing invoices and filling of returns which are required by a VAT in other words an exempted person does not have to deal with the VAT administration and pay tax. Similarly VAT administration has nothing to do with the exempted

persons. However, it is not allowed to credit or refund the tax if there is any on his purchases. At present following goods and services are exempted from VAT

- Basic agricultural product such as paddy, rice, wheat, green and fresh vegetables, fresh fruits, fresh eggs, unprocessed food etc. but excluding food held out for sale by hotels, restaurant, cafes and similar establishment.
- Goods of basic needs such as edible oil, piped water, fuel, wood, coal and kerosene,
- Live animal and animal product.
- Agriculture inputs such as seeds, manure, fertilizer, soil conditioners agricultural hand implements and pesticides.
- Medicine and similar health service.
- Education and services.
- Books and newspapers.
- Artistic and cultural goods and services ,curving services.
- Transpiration services.
- Personal or professional service.
- Other goods and services such as postal services, financial and insurance services, bank notes, cheque books, gold and silver, land and building, belting, casinos, lotteries (Deuja, 1969: 55).

Zero rating Technique

Zero rating simply means a zero percent tax rate on goods and services . if goods or services are zero rated the input tax paid on purchase is creditable or refundable. For example, if export is zero rated the tax payer will get refund of the VAT paid on his export on the basis of exemption as well as he will be credited of the tax paid on his inputs

i.e. raw materials, capital goods etc. Thus, the tax payer is truly exempted from VAT.

However, zero rates are applied on various grounds especially on social welfare. Such goods and services for basic necessities to make live survival i.e. foods, medicines and clothes in other words, in practice zero rates is applied to fulfill the following objectives.

- To provide basic necessities fully free from tax.
-) To make export promotion in order to correct balance of payment in international trade.
-) To support economic growth freeing capital goods completely from VAT.
-) Following supplies are zero rated.
-) Exports.
-) Goods that have been shipped for use as stores on a flight to a destination outside the kingdom of Nepal.
-) Goods or stores taken on board an aircraft are also zero rated provided that the goods are taken on board an aircraft to a destination outside the kingdom of Nepal for delivery to another country. Similarly fuel used by aircraft on a flight to a destination outside the kingdom of Nepal is also zero rated.
-) Imports of goods and services by accredited diplomats.
-) Goods or services purchased or imported by His Majesty the king, Her Majesty the queen, His majesty the Crown prince and other members of Royal family.
- To get best result from zero rating technique, the tax refund process should be carried out in a systematic and routine manner

A Single Rated VAT System

VAT is levied with a single positive rate of 13 percent. In the contest of Nepal, tax administration is very weak as well as most of the tax payers do not maintain proper book keeping system. Thus a single rated VAT system is applied with the presumption that it will bring simplicity in VAT administration as well as for maintaining proper records. However, such a system does not follow the equity principle of taxation since it puts the same burden on all commodities and services irrespective of whether they are necessity or luxurious goods so as to make VAT more progressive.

On the other hand multiple rates reduce regressively in taxation. However, multiple rates create complexity in administering VAT system since there is the need to classify commodities into different groups and change various rates. Tax payers need to maintain separate records and have to supply more pieces of information while preparing their tax return thus resulting in greater burden to the tax payer as well as tax administration.

From the economic point of view as well, a single rate is desirable than multiple rate since the later induces the producer to divert their resources from a higher rated to lower rated industries to lower their tax burden. Under multiple rate system, “ every additional rate will significantly increase cost and complexity.”

c. Income Tax

Concept

Income tax is considered as an important source of revenue in most of the countries whether it is developed or developing countries regardless of in high or low contribution. It is levied on the net income of

individual and corporation. As mentioned in Income Tax Act 2058, income means a person's income from any employment, business or investment and total of that income as calculated in accordance with this Act and tax means income tax imposed on all those incomes that lie under the category of income as per this act and also includes fines ,fees and penalties payable to the department of tax. Income tax refers to the tax chargeable on the net income of a person earned or received in the kingdom of Nepal within the year of income after making deducting to which he is entitled under this act (Aryal and Paudel, 2060:44).

The income tax act divides all sources of income into three groups–

- a) Business
- b) Investment
- c) Employment

Business Income

For the purpose of income tax, business income refers profit and gains from conducting the business. This type of income also includes service fees amount derived from disposal.

Investment Income

Investment income is means income generated from the use of capital. In other words investment income includes dividend, interest, natural resource payment , rent, royalty, gain from investment insurance, gain from an unapproved retirement fund , interest or retirement payment made by an approved retirement fund are included in the taxable income. Capital gains realized on the disposal of fixed asset are also included in the income.

Employment Income

According to Income Tax Act 2058, any type of remuneration from any employment is taxable income. Similarly, all benefits received in respect of employment including past or future employment are made taxable. For example, payment relating to the change of terms of employment fringe benefits, various types of allowances, payment received through third parties all are made taxable.

Currently, Nepal levies four different types of income taxes, they are individual income tax, corporate income tax, house rent tax and interest tax individual income tax is levied on every person who has taxable income. Individuals and proprietorship firms pay this tax. The corporate tax is levied on the profits of the corporation. Here, corporation refers to government corporations, public and private limited institutions presented by the Director general. Interest tax is levied on interest income from all types of deposits at a bank or finance company and house rent tax is levied on income obtained from the renting out of land and buildings.

Major Issues Regarding Income Tax in Nepal

Tax Base

Tax base lays the foundation for determining tax. Some of the mostly used tax bases are tax on gross assets, tax on business expenditure, tax on value added, tax on book profits and tax on cash flows. Each tax base has its own merits and demerits. However most of the countries prefer corporate profits or book profits as the tax base since book profit as a tax base is stronger and superior than other types of the bases. In case of Nepal, tax is levied on the total income of the previous year of a company. The total income falls mainly under the heads of income i.e. profits and gains of business and other sources of income. The word

profit means net income i.e. total revenue less total cost. However, accounting profit may differ from taxable profits. For computing taxable income profit as per certain expenses and losses which are either fully or partly disallowed under the provision of Income Tax Act. Similarly, there are certain incomes, which are fully or partly tax free . the taxable income is computed by adjusting the following items to the net profit.

Net profit as per profit and loss account

- a. Add those expenses which are not allowed to be deducted as per the provisions under Income Tax Act.
- b. Those incomes which are taxable but not created to profit and loss account.
- c. Deduct those expenses which are non- taxable but included in profit and loss account.
- d. Deduct those income which are tax free but included in profit and loss account.

Tax Incentive

Tax incentive is an integral part of the tax system for accelerating the pace of industrialization in most of the countries. Tax incentive may imply a partial or complete exemption from one or a variety of taxes and special allowances for a certain period to motivate the behaviour of saver or investor. Tax incentive, on one hand, involves cost in the form of loss of revenue to the government while on the other hand , it result in increase incorporate saving and investment and thus accelerating the industrialization process.

Tax incentive may differ from country to country depending upon the economic and political climate. However, they are generally in the form of investment allowance, investment tax credit, development rebate,

depreciation allowance, extra- shift allowance, tax holyday, carry forward of losses investment grants, deduction on respect of dividend, promotion of tourist facilities or hotels, development of backward region , rehabilitation of sick industries, permitting shareholders (Koirala, 1985).

Loss Offset provision

Tax law has made the provision regarding the recovery of losses and this recovery is called 'Loss Offsetting'. This loss offsetting makes the entrepreneur capable of bearing the risks. There are two methods of loss offsetting. One is carry forward of losses. If the industry faces loss in a particular year, this loss can be carried forward in future years for set off against the income of subsequent years. Another is carry backward of losses which mean allowing business organization to recover the loss from the tax it has already paid to the government.

The income Tax Act 2058 has introduced liberal provisions relating to the treatment of losses. Losses can be forwarded for the following four years. However, in the case of electricity projects that insure building power stations generating and transmitting electricity and prospects conducted by any entity involving the building of public infrastructure, which is owned operated and then transferred to HMG/ N any unrelieved loss of the previous seven years can be deducted. Further more, tax payers involved in banking insurance and long term contract businesses, in addition of the carry forward of losses, are also allowed to carry back their losses. The treatment of losses differs depending upon their nature and sources. Losses incurred from a domestic business are deductible against all types of income from any source i.e. domestic or foreign. Losses from a domestic investment can be deducted only against investment income whether domestic or foreign. Foreign losses can be offset against foreign source income only of the foreign losses, business

losses can be offset against foreign business or investment income while the losses from foreign investment may be deducted from foreign investment only.

d. Excise Duty

Concept

Among the many indirect taxes excise tax have been found to be most productive and moreover it has become very important tool of resource mobilization of the country.

The term excise tax generally refers a tax on home produced goods at same stage of production or before their sale to consumers from above definition we get :

- a) It is a duty or tax.
- b) It is levied within land or levied on the produced goods before sale to consumers.
- c) It is levied upon the pursuit.
- d) Its burden falls upon consumer.

An excise tax is usually levied on the manufacture of consumer goods. But it can be shifted to the consumer of the product by including the amount of tax in the selling price. An excise tax is levied on the purchase, production sale of specific groups of commodities to raise revenue, to discourage the consumption of luxurious or to influence the allocation of resources (Baniya, 1979).

In short, excise duties refer to the levies on home produced goods at some stage of production or before their sale to home consumers. The point to be noted is that these duties are levied on the domestically manufactured goods only i.e. imports are kept outside the excise net.

The excise tax is very helpful instrument to control the consumption which is regarded as lacking merit or as likely to cause negative externalities.

In case of our economy excise duties are the fourth largest source of total tax revenue. They are levied on certain goods (tobacco, alcohol, plastic, cement, vehicle) produced in the kingdom of Nepal either on advalorem or specific rate basis .

Evolution of Excise Duties in Nepal

Excise duty in Nepal is not a new duty. If the term towards its origin we get a long background behind excise duty. It is said, in 18th century in Nepal excise tax was included in commercial taxes custom transit and market duties and levies on the manufacture of different goods constituted an important source of state revenue. It included levies on dyers and printers of cloth and manufacture of vermilion in Kathmandu and Patan, fee for stamping metal utensil exported to Tibet and textile imported from India or Tibet. Taxes and levies collected from Newar community and a monopoly in trade in gurcard amount borax. Before 1951 the Rakam Bandobasta Adda who has given power to collect excise revenue and this was only one institution. At that time major source of excise revenue was the contract tax on liquor, skins and agriculture. It is notable that at that time excise tax on industrial production was not levied . when the ministry of finance has established in 1952 A.D. then the Rakam Bandobasta Adda was converted into revenue department and began to work in revenue collection as usual. From this time revenue department used levy excise tax on industrial production too. Thus, in the previous period the revenue from excise tax was less while tax on industrial production crossed this limit.

With the expansion of different kind of industries within the country excise revenue began to increase. Later on 1966 A.D. a separate excise department was established. This department collects excise revenue. Excise duties are basically levied on tobacco products and alcoholic beverages. At present, excise duty act and excise duty rule 2059 is in operation. Since excise duties are the fourth largest source of tax revenue of HMG., the separate excise Act and excise rules for administration of excise duties have been introduced.

2.2 Review of Related Studies

Several books, research papers, dissertation reports and article published in journals and newspaper are reviewed while conducting this study only few literatures are found in this field. Many studies are made in the income tax system management in Nepal, but few were related to the tax problem of manufacturing industries. Reviews of, available materials based on tax problem of manufacturing company in Nepal are certainly helpful to the subject matter in the tax system of Nepal for this purpose, literatures have been reviewed as:

CEDA published a report “Resource Mobilization for Development the reform of income tax in Nepal.” In 1978, prepared by a research team headed by Dr. G.R. Agrawal, it mainly dealt with the necessity of resource mobilization in Nepal through the reform of income tax. It showed the growing resource gap since 1951/52 onward and sought the way for filling it up. For this they calculated elasticity's and buoyancies of major Nepalese taxes with base GDP using series of different tax revenue from 1967/68 to 1975/76 for measuring their productivities. The values of them for income tax being highest 2.18 and 2.01 and the difference also being high, they recommended income tax for the objective concerned.

In addition to this the team with the help of opinion questionnaire upon tax payer, tax experts, tax officers. And tax administrators examined the problems of income taxation in Nepal and suggestions are also given in its own word. Nepalese tax payers are favorably disposed to income tax. However, the major constraints in the effective functioning of the tax system seems to be administrative deficiencies poor tax paying habits, lack of tax payer education and complex tax paying procedure.

Nepal (1983), presented her master's level dissertation on " A study of problems and prospects of Income Tax in Nepal." She has emphasized on fiscal system of Nepal, origin, meaning existing position, tax problems and future prospects of Income Tax in Nepal. She has pointed out some problems of existing Nepalese income tax system as inefficient income tax administration, mass poverty, lack of tax consciousness, less number of tax payer, narrow coverage, assessment deficiency etc. she has suggested for effective tax administration widening the tax coverage etc. for solving the problems so as to utilize resources efficiently.

Baral (1989), in her dissertation, " Income tax in tax structure of Nepal" has studied the contribution of income tax in the tax structure of government revenue in Nepal. She stated that it is not easy to raise government revenue in Nepal because the main source of income is agriculture but it is exempted in Nepal and therefore, this sector has no directly contributed to the government in terms of revenue. She has found that the contribution of direct tax has been decreasing. The main reasons behind that is the Nepalese people to evade it.

Her finding for main reasons of income tax evasion are as follows:

- Lack of clear and comprehensive definition of income
- Lack of punishment to the tax evaders .

- The tax paying capacity and the consciousness among tax payer in very low because of illiteracy.
- Lack of efficient tax administration.
- Lack of scientific method of tax collection and trained .
- Lack of public information and public relation.

Tiwari (1990), in an article stated that VAT is considered as the mostly growing trend in the field of taxation. The authors focuses the problems of Nepalese sales taxes such as administrative inefficiencies very large number of small tax payers with no record keeping and issuing the invoices and sales tax concentrated only on import / manufacturing level.

Subedi (1995), in his dissertation, “a comparative study of Nepalese tax system” made a comparative analysis of direct and indirect taxes in their contribution to government revenue. The study has examined the trends of tax and GDP of Nepalese economy, analyzed. The responsiveness of different taxes with GDP of Nepal and assessed the problems of Nepalese taxation.

The study has analysis the relationship between tax and GDP from 1964/65 to 1976/77. The study has revealed that tax and GDP ratio are positively related to each other. As GDP, increases tax revenue is bound to increase. Custom duties have the highest share as a percent to GDP but relatively, in decreasing trend. On the other hand, excise tax and income tax have the low share as a percentage of GDP but they ar3e in increasing trend.

Regarding the problems of taxes, the study observed that the main problems of custom duties are open border increasing settlements near the Nepal- India border on both sides smuggling necessity of imposing sale taxes at entry points and inefficient administration. In case of excise

revenue, lack of trained staff is the major constrain in respect to sales tax. Collection of sales tax at source create an undue burden to the importers as well as custom officers. Similarly the problems relating to income tax are no less trouble some.

The main cause of lower position of direct taxes are due lower and irregularity of income due to 40 % people being below poverty line, difficulties in collecting taxes from self-supporting income earners like shopkeepers, farmers, artisans etc. The study conclude that Nepal occupies a very lower position in the collection of direct taxes. They are avoided on the ground of poverty, low monetization and subsistence economy. However , an excessive reliance on indirect taxes will eventually have adverse effect on the production at home, logging, exports, rising domestic prices thus decreasing peoples welfare and eventually distortion in economic structure. The study has only analyzed the problems relating to Nepalese Taxation but has nopt suggested concrete solution of them.

Khadka (1996), in his paper “A VAT for Nepal” has focused on the purposed structure, operation and administrative set up of a VAT for Nepal and necessary steps to be taken for its early introduction. In his purposed structure the coverage of VAT should be made as broad as possible covering all business transactions. Exemption should not be grantee unless there is a specific reason to do so, such as , administration and equity, zero rating should be limited to exports and tax rate inefficiencies in collection.

Pant (1996), presented a thesis entitled “ A study on Income Tax Management in Nepal” in 1996. His main objectives of research were to find out the share of income tax to government revenue, to review the income tax system and to identify the problem of income tax

management. His research was based upon primary as well as secondary data. The primary data were collected with in Kathmandu valley through interview, questionnaire etc.

He had concluded that Income Tax was a major source of internal resource mobilization, the income tax system and tax assessment was not efficient. Evasion of income tax was major constraint for resource mobilization. He also added that corporate tax rate was found to high and exemption limit was not sufficient.

Lastly, he had recommended that income tax net should be window tax assessment procedure must be improved and income from agriculture and capital gain should be taxed.

Khanal (2000), in his dissertation examined the issues and potions in Nepal. In his study he opined that VAT would be an improvement over the sales tax system. Adoption of VAT in the place of sales tax would insure certain 'gain' through the gain may be at least amount. That is why a move towards VAT would be 'better' but not an "ideal" step. It is because the allegedly overemphasized theoretical advantages of VAT would crash down on earth when it comes to reality due to the absent a 'good' environment for the applicability of the tax. Thus one biggest problem for implementing a VAT in Nepal is its applicability. The applicability issues assume greater importance and demand a very careful examination as well as solution for the implementation of VAT in Nepal.

He found that the major hurdles for the applicability of VAT in Nepal are the existence of large proportion of small traders in trading activities, unfavorable business structure and practices, weak administration, existence of open boarder and large amount of

unauthorized trade from India to Nepal, under valuation of imports, tax evasion and low tax consciousness of the people.

Kandel (2000), submitted a thesis “ Corporate Tax System and Investment Behaviour in Nepal” for the degree of Doctor of philosophy makes a detailed analysis of impact of taxation system upon investment in corporate sector of Nepal. The study mainly focused on present corporate tax system especially the provisions relating to tax burden in Nepal. The trend of tax burden on the corporate sector in Nepal in the last 25 years and also evaluating the tax incentive as investment sector.

Moreover, he has appreciated the government policy of replacement of full tax holidays system through amendment in industrial enterprise Act 1992 in 1997. Since this has made the tax system more equitable on one hand and has save the government revenue on the other hand.

Thapa (2003), on his dissertation “Resource mobilization through VAT in Nepal” stated that the main objectives of introducing VAT are listed below.

- a. Collecting the revenue at low rate.
- b. Export promotion.
- c. Evolving clear and transparent accounting system.
- d. Reduce the economic inefficiency.
- e. Removing of unfairness of sales tax expanding the tax net .
- f. Accelerating the development by abolishing / reducing cascading / paramedic effect of sales tax.

For the Nepalese context, VAT is suitable both theoretically and empirically but the practical aspect is extremely weak. Thus, only the introduction of VAT is not acceptable as a tax reform. The system of

VAT itself has a great need of reforming of the Nepalese context and the percentage of export of goods materials and equipment. The average percentage of import before the introduction of VAT was 75% whereas the average percentage of import was 70.2 % and the average percentage of export was the introduction of VAT in Nepal. It shows the introduction of VAT in Nepal improves the inclination of export to same extent of 4.8 %.

Chudali (2004), has presented a dissertation name “Effectiveness of Nepalese tax policy on various business sectors.” He finds so many problems related to taxes are self assessment system of tax, multi tax system, open boarder lack of publicity and public awareness, ineffective evaluation and monitoring, cancellation of tax holiday, lack of given proper subsidy for every sensible and service oriented business provision of ‘kabadi kar’ for the empty, bottles, improper and disordered management at office, in more detail.

Lastly he has recommended several suggestions like as follows:

- a. Income tax Act 2058 should be revised so the double taxation can be avoided.
- b. Make clear and strict rule for reward and punishment.
- c. Correct its bureaucracy to avoid corruption.
- d. Given tax exemption or subsidy to very sensible and service oriented business which provide basic requirement like health education and communication.
- e. Some unnecessary and illogical taxes like ‘kabadi kar’ for liquors landing and parking charge for airlines etc. should be decrease to reasonable level.

- f. Government should establish sufficient numbers of tax collection counters and should update in personal with adequate training regarding the latest tax policy.
- g. Nepalese tax policy should be immediately updated according to the amendment of international tax policy.
- h. Government should distribute license for liquor and cigarette consumption for the adult group so that disorder and mis management can be avoided.
- i. Self assessment tax system which is found popular among the tax payers should be more simplified and applied in the coming period.
- j. The cottage and domestic industries should be given privileged subsidy and free from excise duty for this purpose they should be categorized as handicraft stone carving hand made carpet etc.

Pant (2004), had written an article “entitled problems in tax administration and their remedies” He had comprehensively explained about problems and their remedies related with tax revenue. The major types of practical problems and challenges in tax administration. He had mentioned in his articles were showing limited amount of transaction , showing low selling price, lack of the showing the real factory cost, ,commercial fraud, lack of co-operation in tax auditing of co ordination between Inland Revenue department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestion to solve the problem and to overcome the challenges. They were statistical and information system should be properly managed fixed norms and standards should be used to assets selling price and factory cost the billing system should be made compulsory co-ordination between Inland revenue office with various entities of HMG. Revenue

investigation department and its related unit should play the important role and auditing of tax should be winded etc.

Pradhan (2005), on his dissertation “ problems and prospects upon industries in Nepal” had specified so many problems related to tax as, widespread discretionary power of tax officers frequent changes in tax law, uncomputerised system, lack of adequate preparation of a self assessment system, lake of mutual trust between tax payers and tax officials arbitrary assessment of custom duties, transaction based valuation system, lack of trained and experienced custom officers, difficult procedure in excise refund system increase on excise rates, tax evasion, problems in VAT refund and so on.

He had also recommended several suggestions which are in listed below as:

- a) The custom process should be made simpler and easier as far as possible.
- b) Import make under DRP(duty refund procedure) system.
- c) Improvement made in transit facility.
- d) Provide custom credit facilities.
- e) Make control on the border areas.
- f) Before placement of custom officers give them proper training, transfer of custom personnel from one custom point to another creating rewarding and punishment system, decrease legal complication.
- g) Improve valuation process.
- h) Computerized the custom administration.
- i) Information related to VAT dissimilated to consumers.

- j) Acts and rules relating to various aspects of tax as well the industrial policy should be amended as per the requirement of business organization.
- k) Income tax assessment using negotiation and best Judgement method
- l) Voluntary compliance of the tax payers for the success of self assessment tax system.
- m) Computerized billing /automatic billing system should be developed in the VAT system.

Ghimire (2005), presented his thesis entitled , “A study in tax administration in Nepal” has tried to give origin and meaning of tax administration with its historical review structure of government revenue in Nepal contribution of tax to total GDP(Tax/GDP ratio) problems relate to tax administrators, income tax are clearly stated.

Finally, he gave suggestions to overcome such problems as time to time measurement of tax administration and its reform. Similarly reform made as personnel system, incentive package, tax procedures, automation and appeal system.

According to Editorial published in Nepal tax journal (2063/64) about alternative and option for an efficient modern, fair tax administration system. Editorial concluded that custom value on import are often not very closely related to transaction prices they are generally less, but the divergence differ considerably across product.

They recommended that custom administration must be improved eliminate recently introduced import duty surcharge, improve efficiency of the duty drawback.

Katuwal (2005), presented thesis named as "Contribution of Income tax on Government Revenue of Nepal" his study basically focused on the importance and contribution of corporate sector to the Nepalese government revenue. Corporate culture in Nepalese corporate sector, various problem related to corporate business. He identified so many problem faced by corporate sectors are poor utilization of the natural resources base, small and stagnant industrial sector, poor performance of public sector enterprises, poor economic growth etc.

He recommended several suggestion to the government that government can increase the portion of direct tax, encourage entrepreneurs to join in VTA and taking PAN number, making clear cut distinction between the role of public sector and private sector, make of efficient and effective monitoring system, reduce resource gap, tax rate are change for resident and own resident company, proper tax incentive should be given for review of sick industrial unit.

Regmi (2006) has presented a dissertation entitled "Income Tax Administration and Its Effectiveness in Nepal." He has analyzed contribution of Indirect Tax and Direct Tax in Total Tax Revenue and find out the share of income tax in total tax revenue. He has examined the effectiveness of income tax revenue collection and administrative aspect of income tax in Nepal. He has described that effectiveness of income tax system depends upon the income tax administration. According to him, in Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration. For the improvement of income tax administration he has suggested that delays in assessment should be reduced as possible, computerized information system is necessary to keep upto date records of income tax, proper tax education should be provided to tax officials as well as taxpayers

regularly, cost of income tax collection is one of the determinants of efficiency of administration. Therefore, the concerned authority should pay due attention to it should be reduced, unnecessary outside pressure should be avoided and income tax experts/profession should be increased in tax administration. He pointed out that the administration should pay great attention to bring the income from house and land rent; doctors; clinic, consultancy service, tuition, research works into income tax net. In these sector, income tax has been highly evaded (Regmi, 2006).

Dhungel (2006) had presented a dissertation entitled "Special provisions to individuals under income tax act 2058." She had examined and analyzed the effectiveness of special provisions provided by ITA 2058 to individual and identified the other provisions to be included in the special category. She also wanted to make aware about special provisions to individual (taxpayers) and tax experts. She has found special provisions to individual provided by ITA 2058 is not sufficient and more provisions should be provided and the retirement contribution should be wholly exempted, the tax concession to individuals working at different area is contradictory. Tax experts are satisfied and taxpayers are not satisfied (Dhungel, 2006).

2.3 Research Gap

There is a gap between this research and previous researchers. Most of the previous research studies were based on laws, provisions, administrative aspect, and structure of tax. Most of them have indicated the inefficiency of tax administration. But majority were based on theoretical facts of administration. They have identified the problem of income tax evasion at high level and suggested for its control. The findings of the previous researchers were mostly based on secondary data. The major problem of income tax system of Nepal is the absence of efficient and effective tax administration. If there is efficient and effective

tax administration, the problem of income tax evasion will be solved automatically.

However, this review discloses the fact that there have few researches which highlights the tax problems in manufacturing companies. Hence an attempt is made in the present study to address the tax problems in Nepalese manufacturing companies.

CHAPTER -III

RESEARCH METHODOLOGY

Research is an ongoing and ever growing activity. It is done not only to solve a problem existing in the work setting but also to add or contribute to the general body of knowledge in a particular area of interest. “Research may be defined as the objective and systematic method of finding solution to a problem i.e. systematic collection, recording, analyzing, interpretation and reporting of information about various facts of phenomenon under study.”

Research methodology refers to the various sequential steps (along with rationale of each such step) to be adopted by the researcher in studying a problem with certain objects in view (Joshi, 2001: 27).

For the achievement of the objective of the study, certain methodology has been applied to conduct the whole study process. This chapter ‘Research methodology’ constitutes certain topics such as research design, population and sample data collection procedure, data analysis methods etc, which are useful in drawing conclusions and making recommendations as per the objective of the study. The related topics are discussed separately as follows:

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The study is designed to draw conclusions about the objective of the study as per the opinions of 15 industries situated at Patan Industrial Estate. Opinions of respondents were collected through questionnaires. The questionnaire contains the opinion about tax administration, tax rate, system, income tax problems of their organization and other aspects of

income tax system in Nepal with necessary suggestions to reduce their income tax problems. Hence, the research methodology followed in the study can be termed as survey cum analytical research design.

3.2 Population and Sample

This research work is related with tax problem of manufacturing company (specially situated at Patan Industrial Estate). So in order to fulfill the objectives of this study is sample from Patan Industrial Estate are taken, the respondents were selected here very carefully from the list received from various sources using Judgement sampling techniques. Questionnaire were distributed to 20 respondents but only 15 were came in responding. Persons involved in the responding of questionnaire are from tax experts and tax administrators of related industries, the conclusion in drawn on the study bans of 15 sample industrial unit. Among them 6 industries were food processing industries lime flour, Noodles, Biscuit and Confectionery industries, 4 industries were plastic udhyog, 4 industries are metal industry and 1 industry is soft drink industry.

Table 3.1

Group of Respondents and Size of Sample from Each Group

S.N.	Group of Respondents	Sample Distributed
1	Food processing udhyog	6
2	Plastic udhyog	4
3	Metal udhyog	4
4	Soft drink udhyog	1
Total		15

Total industries	103
Operating	75
Under construction	15
Closed	07
Other offices	06

3.3 Sampling Method

The sampling method used to select the sample companies is judgment sampling or purposive sampling. The sample is selected on the basis of researchers judgment. As the objective of the study is to draw conclusions about tax practices of manufacturing companies situated at Patan Industrial Estate.

3.4 Nature and Sources of Data

In order to achieve the main objective of this research both primary as well as secondary sources of data were collected. The collection is done in accordance to the availability and the usefulness of it during this study. The sources of data used in this research are as follows:

3.4.1 Primary Sources of Data

Primary sources of data have been collected in Patan Industrial Estate to know the opinion of the respondent a structured questionnaire had distributed. The entire questionnaire has covered the main theme of this research and necessary suggestions for achieving objectives of this study.

3.4.2 Secondary Sources of Data

The secondary sources of data were the information received from books, journals, newspapers, reports, dissertation etc. The major source of secondary data are as follows:

- a) Economic Survey and Budget speeches, Ministry of finance, HMG/ N .
- b) Dissertation relating to tax problem of manufacturing companies, income tax, tax administration.
- c) National newspaper, Journals, Magazines and souvenirs .

- d) Other published and unpublished relevant records and data available.

3.5 Data Collection Procedure

A set of questionnaire were developed and distributed to the selected four groups of respondents individually in order to get accurate and actual introduction in time, distribution was carried out personally. The questionnaires were administered personally to the respondents and additional information was also collected through interview with the respondents. For secondary data information has been collected from published report i.e. economic survey.

Each sample was selected in such way that it represented a group of industry opinions were sought from those who were mainly involved in tax according questionnaires were extensively used for this purpose.

3.6 Data Analysis Method

The data collected by using different techniques and responses collected from questionnaires were suitable categorized, tabulated, processed and analyzed using different technique. The data are analyzed using simple statistical tolls such as percentages and arithmetic mean, weighted mean and sometimes ranking method is also used. Besides this most of the time the data are analyzed descriptively.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

After introduction, review of literature related with present study and methodology, the next step of this research work which is the most important part of this study, is to present the collected data and information into a suitable form and analyzed the data using appropriate procedure. Hence, in this chapter the attempts is to resent the issued related to tax problem practices of Patan Industry is divided into two parts. The first part is related with some basis issued of income taxation of manufacturing companies and the second part is related with analysis of empirical studies.

4.1 Revenue Structure of Nepal

The income of the government through all source like custom duty, Value added tax, Income tax, Land Revenue and Registration charges and fees, and forfeiture, Royalty etc is called public revenue. Public revenue may be divided into two main heading.

- a) Tax Revenue.
- b) Non –Tax Revenue

Generally a tax is a compulsory contribution imposed by a public authority. Taxation is the main source of income of the government excluding foreign aid. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purposes. It includes interest collected of tax arrears and penalties collected on non-payment or late payment of taxes. Tax revenue is the principal source of the government revenue, however its contribution differs significantly in different countries. In the context of Nepalese economy tax revenue is major source of government to mobilize internal sources effectively and

properly as it has been dominating the government revenue by contribution around three quarters of total revenue.

Every government is responsible to perform numerous activities for the betterment of the people in the country. Government needs huge volume of income to fulfill various types of expenditure for this purpose. The government collects revenue from different source like grants, administrative income, business incomes and taxation. Generally, the revenue is classified into two categories tax revenue and non-tax revenue and their sum constituted the government revenue. Beside these sources, government has other sources which are subject to repayment such as loans and however grants are not compulsory repaid. These sources are desirable only to meet these fiscal defects.

The trends and composition of tax revenue and non-tax revenue in different fiscal year represented below:

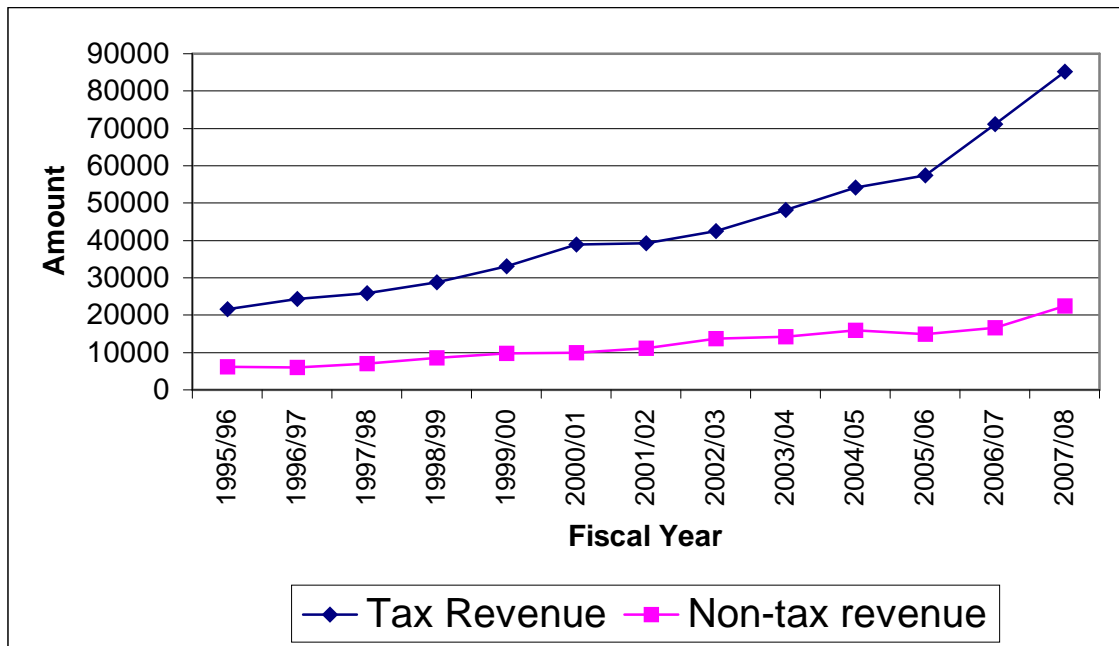
In fiscal year 1995/96 the total revenue was Rs. 27893.1 (Million) in which the part of tax revenue was 77.68% and non-tax revenue 22.32% respectively in the fiscal year 2000/2001 that total revenue was 48893.9 Million. Which share of tax and non-tax revenue was 79.49% and 20.51% respectively. So that the contribution of both tax revenue to total revenue total revenue seem to be growing simultaneously, the dominated role is tax revenue during the study period contribution of tax revenue has increased but non tax revenue has decreased in the fiscal year 2005/06 and 2006/07 by 2% the fiscal year 2007/2008 tax revenue has decreased by only percentage.

Table No. 4.1
Magnitude of Revenue Collection in Nepal
(Rs. Million)

Fiscal	Total Revenue	Tax revenue		Non tax revenue	
		Amount	% as total revenue	Amount	% as total revenue
1995/96	27893.1	21668.0	77.68	6225.1	22.32
1996/97	30373.5	24424.3	80.41	5949.2	19.89
1997/98	32.937.9	25939.8	78.75	6998.1	21.25
1998/99	37251	28752.9	77.18	8498.1	22.82
99/00	42893.9	33152.2	77.29	9741.6	22.71
00/01	48893.9	38865.1	79.49	10028.0	20.51
01/02	50445.6	39330.6	77.97	11115.0	22.03
02/03	56229.7	42586.9	75.74	13642.7	24.26
03/04	62331	48173.0	77.29	14158.0	22.71
04/05	70122.7	54104.7	77.16	16018.0	22.84
05/06	72282.1	57430.4	79.45	14851.7	20.55
06/07	87712.2	71126.7	81.09	16585.5	18.91
07/08	107622.4	85155.5	79.12	22466.9	20.88

Source: Economic Survey July 2006/2007 and 2009, Ministry of Finance (MOF) Nepal.

Figure No. 4.1
Figure of Revenue Collection in Nepal



4.1.1 Tax Revenue Structure of Nepal

Taxes are not a voluntary contribution by the taxpayer but it is compulsory in Nature; Taxation is the main sources of income of the government excluding foreign aid. Total tax revenue is composed of direct tax and indirect tax. The tax on consumption is known as indirect tax where tax on income and capital is known as direct tax. Further VAT, custom, sales tax, hotel, entertainment, other services tax, excise duty, contract tax etc are source of indirect tax and the sources of direct taxes are income tax, house rent vehicle, land registration fees etc. So that, the contribution of tax total revenue as the sum of direct and indirect tax i.e. tabulated below.

Table No. 4.2
Tax Revenue Structure of Nepal

(Rs. in Million)

Fiscal	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount	% as total revenue	Amount	% as total revenue
1995/96	21668.8	4655.9	21.48	17012.1	78.52
1996/97	24424.3	5340.0	21.86	19084.03	78.14
1997/98	25939.8	6187.9	23.85	19751.9	76.15
1998/99	28752.9	7516.0	26.14	21236.9	73.85
99/00	13152.2	8951.5	27.00	24200.6	72.99
00/01	38865.1	10159.4	26.14	28705.7	73.85
01/02	39330.6	10597.5	26.94	28733.1	73.05
02/03	42586.9	10105.8	23.72	32481.1	76.28
03/04	48173.0	11912.6	24.72	36260.4	75.28
04/05	54104.7	13071.8	24.16	41032.9	75.83
05/06	57430.4	13968.1	24.32	43462.3	75.67
06/07	71126.7	18980.3	24.68	52146.4	73.31
07/08	85155.5	23087.7	27.11	62067.8	72.88

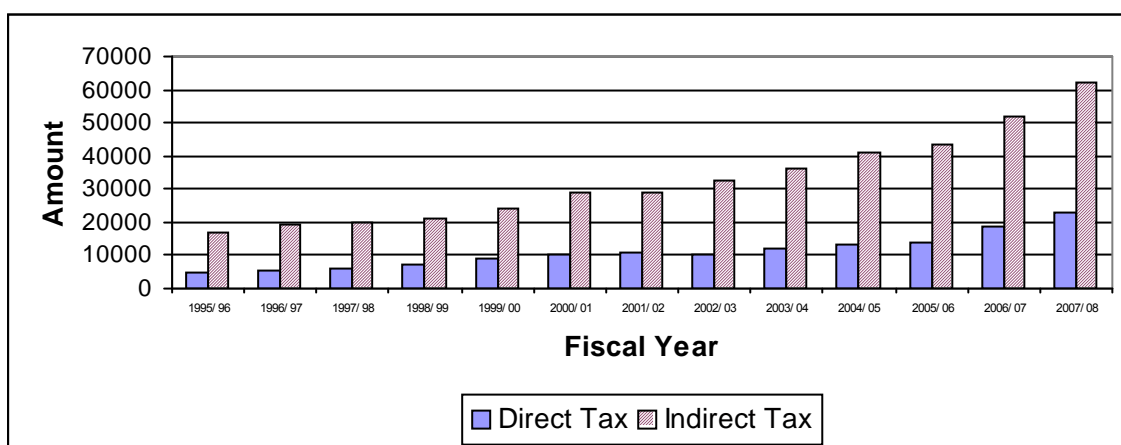
Source: Economic Survey July 2009, MOF, Nepal.

From the above table, it is clear that the completely Nepalese tax structure is dominated by indirect tax revenue during this study period, the share of last tax in total tax in is increasing simultaneously from 1995/96 to 2001/02 but it has decreased by 3% in fly 2002/03 because of instability of govt. and political conflict in the country. It has increase after fiscal year 2005/06 by 2% because of stable political situation.

In developed mobilization like UK and USA, direct tax ptaxs leading role for the internal resource mobilization where as developing country Nepal, indirect tax taxes important role by dominating direct laid.

Indirect tax is the principle source to general revue. So to divert the economy is the channel of development, it is necessary to increase the share of direct tax.

Figure No. 4.2
Trend of Composition of Tax Revenue



4.1.1.1 Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. By definition, direct tax is a charge imposed by government authority up to property, individual or transaction to raise money for public purpose direct tax is levy by the government on the income and wealth received by hour host and business enterprise in order to Raise revenue and as an instrument of fiscal policy direct tax is progressive as far as the amount paid varies significantly according the income and wealth of tax payers.

With very limited tax base and narrow coverage direct tax in Nepal seems to less effective to mobilize the domestic resource. Altogether it is and inevitable instrument of the fiscal policy and hence it must he deigned and properly practice. In general revenue productivity of the direct tax goes in increasing as the economy of the country grows over time. If the economic growth increase per capita income per annum of that country will automatically raise. In depth it means that he possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and

substitutes in the place of indirect tax's magnitude in compost lower the share of direct tax indicates to the les developed or developing country and hence country needs to accelerate the growth path to substitute the share of direct tax is less then developing economies like Bangladesh and Pakistan etc. Thus, it lies as a minor source of tax revenue source of Nepal. Direct tax in Nepalese economic it composed of diffract taxes namely income tax, land tax and wealth tax, interest tax on other side, tax it includes land revenue, Bhumikar and hours and land registration and hour and land tax.

4.1.1.2 Magnitude of Direct Tax Revenue

The composition of direct tax are Land revenue and registration and tax on property and income is shown below.

Table No. 4.3
Magnitude of Direct Tax Revenue (Rs. on million)

Fiscal	Direct Tax	Land Revenue and Registration		Tax on property income	
		Amount	Percent	Amount	Percent
1995/96	4655.9	1066.6	22.9	3589.3	77.09
1996/97	5340.0	1015.4	19.0	4324.6	80.09
1997/98	6187.9	1004.2	16.22	5183.7	83.77
1998/99	7516.0	1003.2	13.34	6512.9	83.65
1999/00	8950.5	1015.9	11.34	7935.6	88.65
2000/01	10159.4	612.9	6.03	9546.5	93.96
2001/02	10597.5	1131.8	10.67	9465.7	89.32
2002/03	10105.8	1414.3	13.99	8691.5	86.00
2003/04	11912.6	1697.5	14.24	10215.1	85.85
2004/05	13071.8	1899.2	13.76	11272.6	86.23
2005/06	13968.1	2181.1	15.61	11787.0	84.40
2006/07	18980.3	2253.5	11.87	16726.8	88.12
2007/08	23087.7	2940.7	12.74	20147.00	87.26

Source: Economic survey July 2009, Ministry of finance (MOF), Nepal.

In fiscal year 1995/96 the both components to direct tax was 22.90% (Rs. 1066.6 Million) and 77.09% (Rs. 3589.3 Million) respectively similarly in 2003/04 were 13.99% and 86.00% and 2007/08 were Rs. 2940.7 (12.74%) Million and 20147.00 (87.265%) Million respectively land revenue registration went declining and reached to the lowest percent is 6.03% by 2000/01 best after 2 year. Collection of land Revenue were factually increases and decreases whole year and tax on property income is almost steady.

4.1.1.3 Composition of Direct Tax Revenue

The major components of direct taxes in Nepalese tax structure are income tax, land tax and house and land registration tax. Until the fiscal year 1993/94. Vehicles tax was considered as a direct tax and since 1994/95's budget speech it has been classified under the indirect tax on the other hand, interest tax and urban house and land rent tax were included under the income tax since 1994/95. Thus the continuation of direct tax has become larger than other direct tax. The share of the major composition of the direct taxes from 1995/96 to 2007/08 is given below.

Table No. 4.4
Composition of Direct Tax Revenue

(Rs. in Million)

Fiscal Year	Income Tax	Land Tax	House and Land Registration	Tax on Property	Total Direct Tax
1995/96	3431.4	18.2	1048.4	157.9	4655.9
1996/97	4123.3	5.9	1009.5	201.20	5340.0
1997/98	4898.1	3.6	1000.6	285.6	6187.9
1998/99	6170.60	1.30	1001.8	342.7	7516.0
1999/00	7420.3	4.6	1011.3	515.00	8951.5
2000/01	9114.00	5.1	607.8	432.5	10159.4
2001/02	8903.7	0.80	1131.00	562.00	10597.5
2002/03	7966.20	0.00	1414.30	725.30	10105.8
2003/04	9245.9	0.00	1697.5	969.2	11912.6
2004/05	10466.1	0.00	1799.2	806.5	13071.8
2005/06	10374.7	0.00	2181.1	1412.7	13968.1
2006/07	15034	0.00	2253.5	1692.8	18980.3
2007/08	17311.22	0.00	2940.74	2835.74	23087.7

Source: Economic Survey July 2009, Ministry of finance (MoF) Nepal.

The largest share in the direct tax is occupied by income tax. The continuously except tax to direct tax is increases in the fiscal year 2001/02 and 2002/03, highly increasing in the fiscal year 2006/07 and then house and land legislation tax and property tax also contribute total direct tax properly. The revenue collection from land tax is declining continuously and gone Zero up to 2007/08 . In the fiscal year 2007/08 tax on property was increase 1200 Million because of VDIS policy adopted by government,

4.1.1.4 Indirect Tax Revenue

Indirect tax, a popular approach concerning taxation implies in the world, is very powerful missile of fiscal policy level of resource especially for the optimum level of resources mobilizing with the principle; more gain form the tax which falls firstly and directly on the taxpayers, but the persons must bear it due to the shirting of tax affected. In short, indirect tax is imposed on one person but is paid either partly or wholly by another person. So, the impact and the incidence of tax are on different person.

Nepal depends heavily on the indirect tax rather than the direct tax because there is not any good alternative especially for the optimum level of revenue mobilization one hand and on the other hand, wide spread poverty, heavy depending on agriculture, snail's pace industrialization, low level income and weather and very weak administration. Since, 1951, indirect tax had grown rapidly and speedily. As indirect tax was effective and proper, its tax mobilize was quickly boosting. So most of the developing countries mobilize it effectively and properly of the domestic resources.

The major components of indirect tax in Nepalese tax structure constitute custom duty, excise duty, sales tax (VAT and contract tax. Custom duties are composed of mainly import duties, export duties. Other components of indirect tax like entertainment tax, hotel tax and contribute very nominal share because they are included in since 1997, other from of indirect taxes includes emission of Indian excise duties road bridge tax and other taxes.

4.1.1.5 Composition of Indirect Tax Revenue

Indirect tax refers to three categories of taxes in Nepalese tax structure namely custom duty sales tax/VAT and excise duty. The share of Major components of the direct taxes is given below.

Table No. 4.5
Composition of Indirect Tax Revenue

(Rs. in Million)

Fiscal Year	Custom Duties B	Sales Tax/VAT	Excise DutyBB	Other TaxesBBB	Total Indirect Tax
1995/96	7327.7	6431.3	1944.3	1309.1	17012.1
1996/97	8309.1	7126.5	2298.1	1350.6	19084.03
1997/98	8502.2	7122.6	2885.8	1241.3	19751.9
1998/99	9517.7	7882.2	2953.2	883.7	21236.9
1999/00	10813.3	9854.9	3127.6	404.8	24200.6
2000/01	12552.1	12382.4	3770.0	00	28705.7
2001/02	12658.8	12267.3	3807.7	00	28733.1
2002/03	14236.4	13459.7	4785.12	165.77	32481.1
2003/04	15554.8	14478.9	6226.7	268.6	36260.4
2004/05	15701.6	18885.4	6445.9	306.7	41032.9
2005/06	15344	21610.7	6507.6	565.7	43462.3
2006/07	16707.6	26095.6	9343.2	697.8	52146.4
2007/08	21062.5	29815.7	1189.58	1766.5	62067.8

Source: Economic Survey 2007/08 July 2009 Ministry of Finance of Nepal.

*Custom duties include import; export Indian excise return and others.

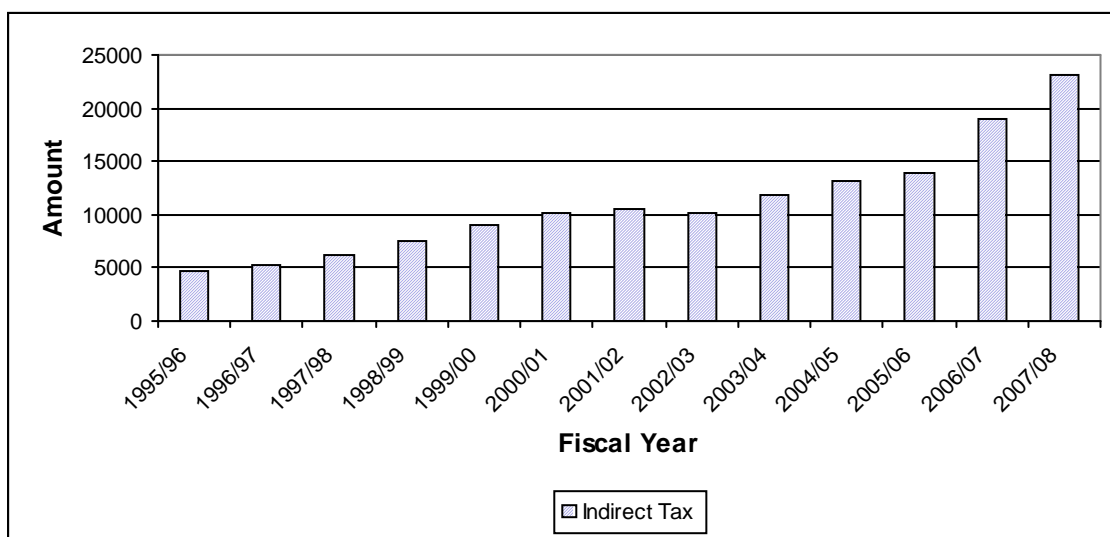
**Excise duties are the sum of the taxation, Industrial product and higher contact.

***Other taxes include entertainment tax, aiz flit tax contract tax, road and bridges maintain tax and others.

Above table shows that the contribution of custom duties to indirect is in incuriosity trend. Its share is the fiscal year 1995/96 is Rs. 7372.4 million and it reached up to VAT to indirect tax is also Increasing contributed Rs. 6431.3 million in FY 1995/96 and it reached up to Rs. 29815.7 million in the FY 2007/08. Similarly, revenue collection from exercise duties is increasing up to FX 1996/97. These after, it was decreasing trend up to 2001/02 and then it was again increasing trend up to FX 2007/08.

Figure No. 4.3

Composition of Indirect Tax Revenue to Total Tax Revenue



4.1.2 Non-Tax Revenue Structure of Nepal

Non-tax revenue is another sources of the government revenue in the revenue structure of Nepal. It is not imposed by public authority to the

tax payers. Fees, Fines, penalties, dividends royalty, sales of fixed assets, principle and interest payment etc are the base of non tax revenue. The composition of non-tax revenue in Nepalese fine forfeiture, receipts form sales of commodities and services, dividends, royalty, sales of fixed assets, principle and interest payment etc. While there is a some scope of generating more revenue through the rationalization of in piracy politics and operational performances. There sources cannot be used effectively as a revenue raise since most of these sources are levied not for revenue purposes.

Table No. 4.6
Composition of Non-Tax Revenue

(Rs in million)

Heading FY	Charges, fees fine and forfeiture	Receipts from sales and service of commodities	Dividend	Royally and sales of fixed assets	Principle interest payment	Miscellane ous items	Total
1995/96	286.1	1673.31	1363.0	67.8	2818.8	16.1	6225.1
1996/97	270.8	1799.6	1164.4	447.9	2220.7	75.8	5949.2
1997/98	329.6	2255.5	1311.0	565.2	2161.1	75.7	6998.1
1998/99	336.1	2146.6	1782.8	202.3	3927.5	102.8	8498.1
99/2000	386.7	2428.9	2507.5	563.3	3751.0	104.6	9741.7
00/01	386.7	2728.0	2336.5	949.6	3497.2	130.8	10028.8
01/02	518.8	2611.1	2512.9	723.9	3109.5	1638.8	11115.0
02/03	579.6	3063.0	2497.6	1945.5	2464.3	3092.8	13642.7
03/04	1202.5	3497.0	2661.1	1465.0	3507.11	1825.3	1415.8
04/05	1359.9	3849.0	4589.9	1931.4	2714.3	1572.6	16018.0
05/06	1927.7	3932.3	3394.8	1196.8	3251.3	1148.7	14851.7
06/07	1945.4	4776.8	4937.7	1091.8	2085.7	1748.1	16585.5
07/08	2554.7	4897.7	5025.9	5773.65	3440.0	774.80	22466.9

Source: Economic Survey 2007/08 July 2009 Ministry of Finance of Nepal.

In the Context of Nepal non-tax revenue is minor source of the government revenue because of its volunteer nature. It contributes to total revenue only 18% to 24%. Thus its role of inseparable but is not a leading role. The main contribution form non-tax revenue are receipts from sales of commodities of other sources like charges fees, fines, and forfeiture, royally and sales of fixed assets etc are minor to them.

Non-tax revenue increased by 35.5% to Rs. 22466.9 million in FY 2007/08 compares to that of FY 2006/07 of the total non-tax revenue, the share of fees, fines, forfeitures was 11.4%, the share of income from government service and sales of goods was 21.8% dividend was 22.4% sales of royally and government property was 25.7% principle or interest was 15.3% and miscellaneous non tax revenue was 3.4% on the non tax revenue front the growth of firm registration fee was 41.6% and administrate fee, fines and forfeitures was in FY 2007/08 compares to previous fiscal year dividend of service oriented organization is funs to have increase by 2% and income of other government sectors by 2.9%. In total the non tax revenue was increasing trend from FY 1995/96 to FY 2007/08 which was reached Rs. 22466.9 million.

4.1.3 Tax and Non-Tax Revenue in GDP

In order to understand the growth pattern of taxation on properly, it would be desirable to examine the share of tax revenue and non tax revenue in GDP, following link represents an account of the tax and non tax revenue as percentage of GDP.

Table No. 4.7
Tax and Non-Tax Revenue as Percentage of GDP.
(Rs. in Million)

FY	Gross D.P.	Tax revenue	Non tax revenue	Percentage of G.D.P.	
				Tax/GDP	Non tax/GDP
1995/96	239388	21668.0	6225.1	9.05	2.60
1996/97	269570	24424.2	5949.2	9.06	2.21
1997/98	289798	25939.8	6598.1	8.95	2.41
1998/99	330018	28752.9	8498.1	8.70	2.58
99/2000	366218	33152.1	9741.6	9.05	2.66
2000/01	394052	38865.1	10028.6	9.8	2.55
2001/02	406138	39330.6	11114.9	9.68	2.74
2002/03	437546	42587.0	13642.9	9.73	3.11
2003/04	474919	48173.0	14158.0	10.14	2.99
2004/05	508651	54104.8	16018.0	10.64	3.14
2005/06	586241	57430.4	14851.6	9.80	2.23
2006/07	646121	71126.7	16885.5	11.00	2.66
2007/08	704254	85155.5	22466.9	12.09	3.19

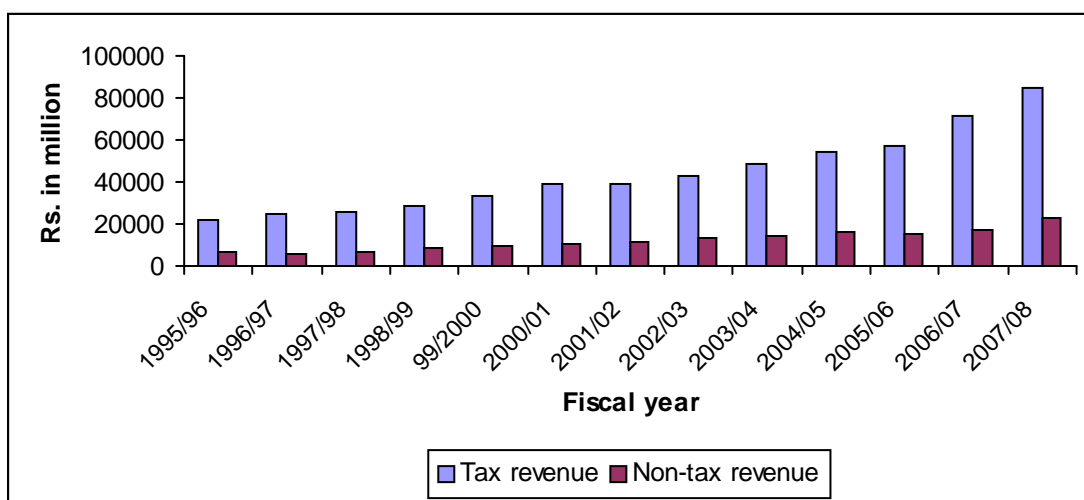
Source: Economic Survey 2007/08 July 2009 Ministry of Finance of Nepal.

The above table represents an account of tax and non tax revenue percentage of GDP, the tax revenue has been increasing much higher than the non tax revenue over the study period 1995/96 to 2007/08. The share of tax revenue decrease FY 2005/06 to 2007/08. The share of tax revenue increased from 9.05% of the GDP in fiscal year 1995/96 to 10.64% in year 2004/05. The share of tax revenue decrease 2007/08. The share of

won tax revenue barely increase from 2.41% of GDP in fiscal year 1997/98 to 3.11% in fiscal year 2002/03 and fluctuate up to 2007/08. The relationship between tax and GDP is known a tax/GDP ratio. This is an indicator of the utilization of taxable capable capacity. The above table shows rather disappointing scenario of tax/GDP ratio is still much lower than that of many other developing countries. By comparison to the world standard, this is very low level of taxation.

Figure No. 4.4

Tax and Non-Tax Revenue as Percentage of GDP



4.1.4 Direct Tax and Indirect Tax Revenue in GDP

Tax revenue is composed of direct and indirect tax. However, the indirect tax revenue dominates the completely Nepalese tax structure the contribution of direct tax revenue is very low in Nepal in comparison to developed concise lived USA, Japan etc because being and underdeveloped country, the people of Nepal live in substance level and all their income is spent on consumption as a result 'direct tax cannot produce more revenue than indirect tax'.

To known the contribution of direct tax and indirect tax revenue it will be describable to examine the share of direct tax and indirect tax

revenue in GDP. The following table indicated the share of direct and indirect tax revenue in GDP.

Table No. 4.8
Direct and Indirect Tax Revenue as Percentage of GDP
(Rs. in Million)

FY	GDP	Direct tax	% of GDP	Indirect tax	% of GDP
1995/96	239388	4655.9	1.34	17012	7.11
1996/97	269570	5340.0	1.38	19084.3	7.08
1997/98	289758	6187.0	2.14	19751.9	6.82
1998/99	330018	7516.0	2.28	21236.9	6.44
1999/00	366251	8951.5	2.44	24200.6	6.61
2000/01	394052	10159.4	2.58	28705.7	7.28
2001/02	406138	10597.5	2.61	28733.1	7.07
2002/03	437546	10105.8	2.31	32481.1	7.42
2003/04	474919	11912.6	2.51	36260.4	7.64
2004/05	508651	13071.8	2.57	41032.9	8.07
2005/06	586241	13968.1	2.38	43462.3	7.41
2006/07	646121	18980.3	2.93	52146.4	8.07
2007/08	704254	23087.7	3.27	62067.8	8.81

Source: Central Bureau of Statistics or Economic Survey July, 2009.

From the above table, the percentage of share of direct tax in GDP is in increasing trend but the share of indirect tax is in fluctuating trend the share of direct tax revenue in terms of GDP, increased from 1.34% in FY 1995/96 to 3.27% in the FY 2007/08 where as the share of indirect tax revenue increased and decreased this percentage is not continuous it raised FY 2007/08 to 8.81%.

4.1.5 Contribution of Income Tax

Contribution of tax revenue to direct tax revenue, contribution of indirect tax revenue to the total tax revenue contribution of income tax revenue to total revenue was computed as below:

A. Contribution of Tax Revenue to the Direct Tax Revenue

The table No. 4.2 shows the contribution of income tax to the direct tax revenue in Nepal. There is dominated role of income tax in the direct tax revenue average share of direct tax to total tax revenue is 22.48% and had raised maximum up to 27%. The contribution of income tax is not less than 54% in any year.

B. Contribution of Indirect Tax Revenue to the Total Tax Revenue

Total tax revenue constitutes direct and indirect tax revenue. There is dominated role of indirect tax in the Nepalese tax revenue structure. The contribution income tax to the indirect tax revenue is presented in initial period of study. The highest contribution of income tax was 27% in fiscal year 2007/08. The share of indirect tax revenue to total tax revenue was 78.51% in the fiscal year 1998/96.

C. Contribution of Income Tax to Total Revenue

Total revenue contributes tax and non-tax revenue in the Nepalese government revenue structure, tax revenue has occupied the most part of public revenue i.e. about two third parts in total revenue. Share of income tax as a percentage of total revenue is presented in table 4.9.

Table No. 4.9
Collection Performance of Income Tax Revenue

(Rs. in Million)

FY	Estimates (in 000)	Collections (in 000)	Differences	Collection as % of estimates % of GDP
1995/96	4000	3431.4	(568.6)	85.78
1996/97	4595	4123.4	(471.6)	89.74
1997/98	4750	4898.1	148.1	103.12
1998/99	5780	6170.2	390.2	106.75
1999/00	7380	7420	40	100.54
2000/01	9980	9114	(866)	91.32
2001/02	11140	8903.7	(2236.3)	79.92
2002/03	9862	7966.20	(1895.8)	80.77
2003/04	8697	9245.9	548.9	106.31
2004/05	10500	10466.1	(33.9)	99.68
2005/06	11800	10374.7	(1425.3)	87.92
2006/07	12710.5	15034	2323.5	118.28
2007/08	16869.2	17311.22	442.02	102.62

Source: Annual Report of IRD Various Year

Note: Figure in bracket indicates negative value.

The income tax collection was 85.78% in FY 1995/96 that was less than the estimation. The estimation income tax collection was increased in the next fiscal year 1997/98 which was 103.1% that trend was still in FY 1999/00. FY 2000/01 and 2001/02 the estimation was failed. The estimation of income tax not good performance to collect the revenue in FY 2004/05 also. But there after FY 2005/06 to 2007/08 collection performance was very good position. In FY 2006/07 income tax collection percent of estimates was 118.28 % that was the highest percentage of whole study period because of higher tax collection policy adopted by government.

4.2 Empirical Study

An empirical investigation was conducted in order to find out the various aspects of tax problem of industries located at Patan Industrial Estate. In this empirical study, the analysis has been done about tax problem on the basis of information collected from respondents. The major tool used for this purpose is questionnaire.

In this study, 20 set of questionnaire were distributed to the different industries but only 15 set are came into responding. The questionnaire was given to financial manager in charge of the tax management. The respondents were asked either yes/ no or selecting one alternative among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is the least important. For analysis purpose choices assigned weights according to number of alternatives. If the number of alternative are ten (10) then the first preferred choice gets ten point and last preferred choice gets one (1) point. Any alternative, which are not ranked, did not get any point. Total points available to each choice are converted into percentage to set the ranked of alternatives. The choice with the highest score of percentage is ranked as the most important choice and with the lowest percentage being ranked at last choice.

Information received from the respondents are arranged, tabulated and analyzed in the proper way. The following table shows the groups and number of respondents.

Table No. 4.10
Group of Respondents and Number

S.N.	Group of Respondents	Number
1	Plastic Udhyog	6
2	Metal Udhyog	4
3	Food processing Udhyog	4
4	Soft drink Udhyog	1
Total		15

Result of Empirical investigation.

a. Effectiveness of Income Tax Act 2058

Income tax Act 2058 is developed from income tax Act 2031. At present income tax Act 2058 is adopted in Nepal. To know the effectiveness of income tax Act 2058 than income tax Act 2031, the question is asked, “Do you think the present Income tax Act 2058 is more effective than income tax Act 2031 ? Yes / No.” the respondents were request to tick. The responses of the respondents are presented follows:

Table No. 4.11
Effectiveness of Income Tax Act 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic Udhyog	5	83	1	17	6	100
Metal Udhyog	3	75	1	25	4	100
Food processing Udhyog	1	25	3	75	4	100
Soft drink Udhyog	-	-	1	100	1	100
Total	9	60	6	40	15	100

Source Field Survey, 2009

From the above table, it is clear that majority, that is 60% of the respondents felt that present income tax Act 2058 effective only 40% felt that it is not effective. 60 percent of the respondents expressed their views that the present income tax Act 2058 is more effective. Thus they are satisfied with present tax policy . only 40% of the respondents are not satisfied with present tax policy. 83% of from plastic udhyog, 75% from metal udhyog and 25% from food processing udhyog felt that present tax policy is effective.

b. Views on adequate administrative and legal opportunities for redressing tax payers grievances

Nepalese tax administration has been suffered since many years. The legal provision is closely related to tax administration. Now the tax act and rule / regulation have not covered the all type of manufacturing industries. So, the respondents are requested for giving their opinion about adequate administrative and legal opportunities for redressing their grievances. That is given in following table.

Table 4.12

Views on adequate administrative and legal opportunities for redressing tax payers grievances

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic Udhyog	1	17	5	83	6	100
Metal Udhyog	1	25	3	75	4	100
Food processing Udhyog	2	50	2	50	4	100
Soft drink Udhyog	-	-	1	100	1	100
Total	4	27	11	73	15	100

Source: Field Survey, 2009

According to field review 75% of the respondents were given their opinion that there has been inadequate opportunities for redressing their grievances. It does not, however, mean that there is no provision for appeal system as such. It takes a long time to given decisions on appeals sometimes even decades to settle appeals filled with the revenue tribunal. Moreover, when a tax payers files an appeal in the revenue tribunal, he must deposit half the amount of tax due in cash. Since the appeals are not expeditiously settled. The amount deposited in such case remains blocked for a long period of time furthermore, since there is not statutory time limit for the finalization of case filed before the revenue tribunal, those who appeal have to preserve their records for an inordinate time which cause them inconvenience and costs.

c. Views on the profit of organization affected by present income tax.

To know the profit of their organization affected by present income tax policy, the question is asked, “To what extent the profit of your organization is affected by present income tax policy?”. The respondents were request to tick mark the given option. The responses of the respondents are presented as follows.

Table No. 4.13

Views on the profit of organization affected by present income tax

Respondents	High		Neutral		Low		Total	
	No.	%	No.	%	No.	%	No.	%
Plastic Udhog	3	50	2	33	1	17	6	100
Metal Udhog	3	75	1	25	-	-	4	100
Food processing Udhog	2	50	2	50	-	-	4	100
Soft drink Udhog	1	100	-	-	-	-	1	100
Total	9	60	5	33	1	7	15	100

Source: Field survey, 2009.

From the above table, it is cleared that majority of the respondents i.e. 60% felt that present income tax policy highly affected on their operation profit. 33% felt that affected naturally and 7% felt that it is affected lowly. 50% of respondents from plastic udhyog felt that present income tax policy affected highly whereas 75% from metal udhyog, 50% from food processing udhyog and 100% from soft drink udhyog, 25% from metal udhyog, 50% from food processing udhyog felt that affected neutral on their profit. Lastly, only 17% from plastic udhyog felt that it affected low on their profit.

d. Views on income tax related problems.

To achieve the expected result from tax the problem related to income tax must be avoided. First of all identification of these problem is necessary and required effective step should be implemented to avoid the problems relating to income tax.

The major problems related with income tax of industries situated at Patan industrial Estate are as follows.

- a) Defective tax administration.
- b) Corruption.
- c) Unclear provision of present income tax act .
- d) Delay procedure.
- e) Lack of systematic evaluation and control mechanism.
- f) Unclear definition of income.
- g) Discretionary power of tax administration.
- h) Improperly implemented of tax act.
- i) Frequent change in tax act .
- j) Higher tax rate.
- k) Inadequate Tax submission procedure.
- l) Inadequate facility and benefit.

Table 4.14**Views on income tax related problems**

S.N.	Problems	Respondents				Total points	Rank
		Plastic udhyog	Metal udhyog	Food processing udhyog	Soft drink udhyog		
1	Defective tax adm.	35	42	25	5	107	VII
2	Corruption	35	30	24	10	99	V
3	Incoem tax act.	28	24	30	6	88	IV
4	Delay procedure	27	22	20	4	63	I
5	Lack of systematic evaluation and control mechanism	35	30	31	9	105	VI
6	Discretionary power of tax adm.	35	30	33	18	126	VIII
7	Unclear definition of income	22	17	14	12	65	II
8	Improperly implemented of tax act	48	45	46	11	150	XII
9	Frequent change in tax act	30	24	27	1	82	III
10	Lack of good tax audit personnel	43	38	37	3	124	IX
11	Higher tax rate	48	44	41	12	145	XI
12	Inadequate tax subkistion procedure	42	41	40	7	130	X
13	Inadequate facility and benefit	53	46	48	13	160	XIII
Total		481	433	416	111	1444	

Source: Field survey, 2009.

While surveying about their income tax related problems, all the respondents felt that they delay procedure is the serious and top most problem facing among different problem. They give to these problem total 63 points and place it first ranks. All respondents felt that

inadequate facility and benefit is the last problem so they provide in total 160 points and placed it last rank.

e. Views on widespread discretionary powers of tax officers.

It is known that tax officers have some powers for implementation of tax. The field survey has been conducted to know the views of different respondents to explore the discretionary powers of tax officers in Nepal. The view of various respondents on this aspect is presented in the table below.

Table No. 4.15

Views on widespread discretionary powers of tax officers

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	6	100	-	-	6	100
Metal udhyog	4	100	-	-	4	100
Food processing udhyog	4	100	-	-	4	100
Soft drink udhyog	1	100	-	-	1	100
Total	15	100	-	-	15	100

Source: Field survey, 2009.

The 100% of the respondents believed that tax officers in Nepal have widespread discretionary powers in Nepal this is one of the main reasons for inefficient tax administration in Nepal.

f. Views on VAT in creation of complication in maintaining proper book system

VAT system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about the VAT creates complication in maintaining proper book keeping system, a question

was asked, “ Do you think VAT is creating complications in maintaining proper book keeping ?”. The respondents were request to tick mark on Yes or No. opinions of the respondents are presented as follows:

Table 4.16

Views on VAT in creation of complication in maintaining proper book system

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	-	-	6	100	6	100
Metal udhyog	-	-	4	100	4	100
Food processing udhyog	-	-	4	100	4	100
Soft drink udhyog	-	-	1	100	1	100
Total	-	-	15	100	15	100

Source: Field survey, 2009.

Not a single respondents believed that VAT is creating complication in maintaining proper book keeping system. According to them, VAT creates complications for those who try to evade tax in fact , VAT enforces them to maintain proper accounting system.

g. Views on penalties and fines imposed to the taxpayers

To know the present rate of penalties and fines imposed to the tax payers in Nepal, the question is asked, “Is the present rate of penalties and fines imposed to the tax payers is very high?”

The responses of the respondents are presented as follows.

Table No. 4.17

Views on penalties and fines imposed to the tax payers

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	6	100	-	-	6	100
Metal udhyog	4	100	-	-	4	100
Food processing udhyog	4	100	-	-	4	100
Soft drink udhyog	1	100	-	-	1	100
Total	15	100	-	-	15	100

Source: Field survey, 2009.

From the above table and other discussion with respondents 100% of the respondents agreed that present rate of penalties and fines imposed to the tax payers is very high nobody is in favour of present rate. All they demanded to reduce the present rate of penalties and fines. 100% from all respondents felt that present rate of penalties and fines are too much high.

h. Views on effectiveness of tax administration in Nepal

Nepalese tax system is very complicated. The system has not been more sufficient. To know the effectiveness of tax administration in Nepal the question is asked, “Do you think that tax administration in Nepal is efficient ?” The respondents were request to point out the given causes (their answer) from 1 to 5 and asked to specify other if any things. The responses of the respondents are presented as follows:

Table No. 4.18.a.

Views on effectiveness of tax administration in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	2	33	4	67	6	100
Metal udhyog	1	25	3	75	4	100
Food processing udhyog	1	25	3	75	4	100
Soft drink udhyog	-	-	1	100	1	100
Total	4	27	11	73	15	100

Source: Field survey, 2009.

It is cleared from above table that majority of the respondents are dissatisfied with the present efficiency of tax administration. On the other hand only 27% are in favour of tax administration of Nepal. 73% of the respondents are against the present efficiency of tax administration they felt that present tax administration is inefficient.

67% from plastic udhyog, 75% from metal and food processing udhyog and 100% from soft drink udhyog felt that present tax administration are ineffective if no. please point out the reasons (Answer 1 to 5 scales).

- a) Frequent change in tax low.
- b) Lack of trained and competent tax officials.
- c) Lack of Computerization.
- d) Lack of voluntarily compliance by the payers.
- e) Tradition and complex procedure.

Table No. 4.18.b.
Problems on tax administration

S.N.	Problems	Respondents				Total points	Rank
		Plastic udhyog	Metal udhyog	Food processing udhyog	Soft drink udhyog		
1	Frequent change in tax law	11	10	6	5	32	2
2	Lack of trained and competent tax officials	8	6	4	6	24	1
3	Lack of computerization lack of voluntarily	21	11	10	14	56	4
4	Compliance by the payers	7	9	10	15	41	3
5	Tradition and complex procedure	26	2	11	15	72	5
	Total	73	56	41	55	225	

Source: Field survey, 2009.

From the above table we can come to the conclusion that following reasons are major problem which make tax administration in Nepal inefficient. Inefficient of tax administration in Nepal were ranked in order to performance of the respondents are as follows:

- a. Lack of trained and competent tax officials.
- b. Frequent change in tax law.
- c. Lack of voluntarily compliance by the payers.
- d. Lack of computerization
- e. Tradition and complex procedure.

From the above table we can find that there is lack of trained and competent tax officer because respondents give low means only 24

points to this option. Similarly tradition and complex procedure tot 72 points which fail in rank 5.

It means government quickly recruit trained and competent tax officer as well as focus on easy, procedure and also focus on other problems.

i. Views on effectiveness of present tax system

To know the effectiveness of the present tax system of Nepal, the question is asked, “Do you think the present tax system of Nepal is effective ? please rank”. The respondents were request to rank the given causes 1 to 3 and ask to specify specified if any things. But some respondents ranked and some made tick mark. The responses of the respondents are presented as follows.

Table No. 4.19.a

Views on effectiveness of present tax system

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	3	50	3	50	6	100
Metal udhyog	3	75	1	25	4	100
Food processing udhyog	3	75	1	25	4	100
Soft drink udhyog	-	-	1	100	1	100
Total	9	60	6	40	15	100

Source: Field survey, 2009.

According to field survey 60% of the total respondents provided their view regarding effectiveness of present tax system. 40% of total respondents provided their view regarding ineffectiveness of present tax system . 50 % of respondent from plastic udhyog 75% respondent from metal udhyog fell that present tax system is effective. Similarly 50 %

from plastic udhyog, 25% from metal udhyog, 25% from food processing udhyog and 100% from soft drink udhyog felt that present tax system is ineffective.

If yes, please point out the reasons (Answer on 1 to 3 scats)

- a) Fair tax rate and exemption limit
- b) Appropriate assessment procedure
- c) Effective tax administration.

Table No. 4.19.b

Reasons for Effective Tax System

S.N.	Reasons	Total points	% of total points	Rank
1	Fair tax rate and exemption limit	3	33.33	2
2	Appropriate assessment procedure	22	24.44	1
3	Effective tax administration	38	42.22	3

Source: Field survey, 2009.

According to the respondents, the first reason for the effectiveness of present tax system is appropriate assessment procedure. Similarly, the present tax system is effective due to providing fair tax rate and exemption limit, which is the second reason. Likewise, effective tax administration is the third reason for making present tax system effective.

j. Views on exemption limits in income tax to be provided to an entity

To know the opinion that exemption limit in income tax should be provided to an entry, respondents were request to selected one among

the three alternatives (Yes, or No and I don't know) the question was asked, "Do you think exemption limits in income tax should be provided to an entity like in the case of individuals ?" The responses received from respondents are tabulated below.

Table No. 4.20

Views on exemption limits in income tax to be provided to an entity

S.N.	Problems	Respondents				Total	
		Plastic udhyog	Metal udhyog	Food processing udhyog	Soft drink udhyog	No.	%
1	Yes	4	3	3	1	11	73.33
2	No	4	1	-	-	2	13.33
3	I don't know	1	-	1	-	2	13.33
Total		6	4	4	1	15	100

Source : Field survey, 2009.

The above table shows that out of cent percent responses, 73.33% respondents were want exemption limit income tax to an entity. 13.33% were not agreed with exemption limit to an entity. And 13.33% ideal. It is concluded that majority of respondents were agreed to provide the exemption limit to an entity. Some respondent felt that it is not necessary.

k. Views on existing income tax rates

Income tax act provided the different tax rates to different sector. To know the opinion about existing income tax rate, respondents were request to selected one among the three alternatives (High, Low and Neutral) the question was asked, " what do you think about the existing income tax rates ?" The responses received from respondents are tabulated below.

Table No. 4.21

Views on existing income tax rates

Respondent	High		Neutral		Low		Total	
	No.	%	No.	%	No.	%	No.	%
Plastic udhyog	4	67	1	17	1	16	6	100
Metal udhyog	3	75	1	25	-	-	4	100
Food processing udhyog	3	75	1	25	-	-	4	100
Soft drink udhyog	1	100	-	-	-	-	1	100
Total	11	73	3	2	1	7	15	100

Source: Field Survey, 2009.

From the above table 73% of the respondents thinks existing income tax rate is high. Only 7% respondents is favors of existing rate and 20% think it is neutral. 67% from plastic Udhyog, 75% from metal udhyog, 75% from food processing udhyog and 100% from soft drink udhyog present their view that existing rate is high.

I. Views on necessity of rebates to regular tax payer

To know the opinion about rebates provided to regular tax payer, respondents were request to selected one among the three alternatives (Yes , No and I don't know) the question was asked, "Do you think rebates should be provided to regular tax payer ?". The responses received from respondents are tabulated below.

Table No. 4.22

Views on necessity of rebates to regular tax payer

Respondent	Yes		No		I don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Plastic udhyog	1	17	2	33	3	50	6	100
Metal udhyog	1	25	2	50	1	25	4	100
Food processing udhyog	-	-	1	25	3	75	4	100
Soft drink udhyog	-	-	-	-	1	100	1	100
Total	2	13	5	33	8	54	15	100

Source: Field survey, 2009.

From the above table it is clear that most of the respondents about 54% don't know that rebate should be provided to regular tax payers. 33% of the respondents feel that rebates should not provided to regular tax payers. 50% respondent from plastic udhyog, 25% respondents from metal udhyog, 75% respondents from food processing udhyog and 100% respondents from soft drink udhyog having no idea about that provision.

m. Views on complication faced in paying tax

To know the facing complication a question was asked, "Have you faced any complication in paying tax?" The responses of respondent are as follows.

Table No. 4.23**Views on complication faced in paying tax**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	3	50	33	50	6	100
Metal udhyog	3	75	1	25	4	100
Food processing udhyog	2	50	2	50	4	100
Soft drink udhyog	1	100	-	-	1	100
Total	9	60	6	40	15	100

Source: Field survey, 2009.

From the above table, it is cleared that 60% of respondents face complication in paying income tax whereas 40% of respondents so not face complication.

To know the cause of facing complication a question was attached with this if yes please rank the following reason according to your priority in order to know the reason, the respondents were provided three reasons and were requested to rank them. The break down of the responses is shown below.

Table No. 4.24**Major Reason of facing complication in paying income tax**

S.N.	Problems	Respondents				Total points	Rank
		Plastic udhyog	Metal udhyog	Food processing udhyog	Soft drink udhyog		
1	Complex tax law and procedure	9	8	9	3	29	2
2	Administrative inefficiency	7	5	4	3	19	1
3	Corruption	15	11	10	6	42	3
Total		31	24	23	12	90	

Source: Field survey, 2009.

From the above table it is clear that major reason of facing complication in paying income tax from the above table according to the respondents preferences are as follows.

- a. Administrative inefficiency
- b. Complex tax laws and procedure.
- c. Corruption.

n. Views on problem facing in claiming tax refund in VAT

To know the problem faced in claiming tax refund in VAT, a question was asked, “Have you faced problems in claiming tax refund in VAT?”. The respondents were request to made tick mark. The responses of the respondents are presented as follows.

Table No. 4.25

Views on problem facing in claiming tax refund in VAT

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	4	67	2	33	6	100
Metal udhyog	3	75	1	25	4	100
Food processing udhyog	3	75	1	25	4	100
Soft drink udhyog	1	100	-	-	1	100
Total	11	73.33	4	26.67	15	100

Source: Field survey, 2009.

From the above table out of total respondents 73.33% respondent were facing problems in claiming tax refund in VAT. 26.67% respondents were not facing problems in claiming tax refund. 67% respondent from plastic udhyog, 75% respondent from metal udhyog, 75% respondent from food processing udhyog and 100%

respondent from soft drink udhyog were agreed to facing the problems in claiming tax refund in VAT.

o. View on pervasive nature of problems that hinder the tax structure of Nepal

To know the pervasive nature of problem that hinder the tax structure of Nepal the question is asked, “Among the below mention causes which you think is the pervasive nature of problem that hinder the tax structure of Nepal ? please rank.” The respondents were request to rank the given causes from 1 to 14. The responses of the respondents are presented as follows.

Table No. 4.26

View on pervasive nature of problems that hinder the tax structure of Nepal

S.N.	Problems	Respondents				Total points	Rank
		Plastic udhyog	Metal udhyog	Food processing udhyog	Soft drink udhyog		
1	Mass poverty	26	28	10	21	85	5
2	Lack of tax consciousness	34	36	22	18	110	8
3	Complicated tax laws	18	13	11	7	49	2
4	Administrative deficiency	21	14	10	10	55	3
5	Increasing corruption	16	12	11	3	42	1
6	Inefficient personnel	46	32	28	63	169	13
7	Leakage of collection	42	45	18	49	154	11
8	Inappropriate rate	56	44	12	34	146	10
9	Tax evasion	65	32	44	22	163	12
10	Assessment difficulties	22	11	18	15	66	4
11	Illegal business activities	42	21	29	33	125	9
12	Narrow tax coverage	32	11	24	29	96	7
13	Inadequate government policy	38	28	18	7	91	6
14	Inadequate tax management	85	48	55	36	224	14
Total		543	375	310	347	1575	

Source : Field Survey, 2009.

By observing the above table, according to the respondent's point of view the major problem that hinder the tax structure of Nepal were ranked as follows:

- a. Increasing Corruption.
- b. Complicated tax laws.
- c. Administrative deficiency.
- d. Assessment difficulties.
- e. Mass poverty.
- f. Inadequate government policy.
- g. Narrow tax coverage.
- h. Lack of tax consciousness.
- i. Illegal business activities
- j. Inappropriate rate .
- k. Leakage of collection
- l. Tax evasion
- m. Inefficient personnel.
- n. Inefficient tax management.

According to field survey increasing corruption secured to most problem that hindered tax structure of Nepal. Respondents from different udhyogs ranked it first problem which carry total 42 points. Respondents from different udhyog felt that inefficient. Tax management is the last problem that hindered the tax structure of Nepal. They felt that inefficient tax management is not so serious problem as other so they ranked it at last. They provide 224 points. Respondents felt that present tax management less affected to the tax structure.

From the above the conclusion is drawn in such a way that increasing corruption complicated tax law, administrative deficiency, assessment difficulty, and mass poverty are the main notable problems that hinder the tax structure of Nepal.

p. Views on tax planning system of the organization

To know the opinion of the respondents about tax planning of their organization, a question was asked, “ Is there any system of tax planning in your organization?” The respondents were request to made tick mark on Yes or No. Opinion of the respondents are presented as follows.

Table No. 4.27

Adoption of tax planning system of the organization

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	-	-	6	100	6	100
Metal udhyog	-	-	4	100	4	100
Food processing udhyog	-	-	4	100	4	100
Soft drink udhyog	-	-	1	100	1	100
Total	-	-	15	100	15	100

Source: Field survey, 2009.

From the above table 100% of respondents do not take facility of tax planning. It is happening

Because most of them are not knowledge about tax planning. Similarly government do not take hard action who evade tax. So tax evasion is major problem of our country. If they facility of tax planning it make minimize tax evasion.

q. Views on necessity of special tax policy for manufacturing company

Nepal government make some special tax policies for different industries. To know about special tax policy of manufacturing company, a question is asked, “Should the government prepared special tax policy of manufacturing company?” Respondents were request to selected one among the three alternatives (Yes, No and I don’t know). The responses received from respondents are tabulated below.

Table No. 4.28

Views on necessity of special tax policy for manufacturing company

Respondent	Yes		No		I don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Plastic udhyog	-	-	6	100	-	-	6	100
Metal udhyog	-	-	3	75	1	25	4	100
Food processing udhyog	-	-	3	75	1	25	4	100
Soft drink udhyog	-	-	1	100	-	-	1	100
Total	-	-	13	87	2	13	15	100

Source: Field survey, 2009.

From the above table 87% of the respondents feel that government should not prepared special tax policy related to manufacturing company. 13 % of the respondents give their view that they do not know either government make policy or not. 100% respondents from plastic udhyog, 75% from metal and food processing udhyog and 100% respondents from soft drink feel that government should not prepared special tax policy related to manufacturing company.

r. Views about benefit to the manufacturing industries in related to tax

It is know that most of the industries are growing by providing tax benefits. So tax benefit is essential the manufacturing industries. The field survey has been conducted to know the views of different respondents about tax benefit for manufacturing industries. The responses of respondents are presented as follows:

Table No. 4.29

Need of Tax benefit to the manufacturing industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Plastic udhyog	6	100	-	-	6	100
Metal udhyog	4	100	-	-	4	100
Food processing udhyog	4	100	-	-	4	100
Soft drink udhyog	1	100	-	-	1	100
Total	15	100	-	-	15	100

Source: Field Survey, 2009.

From the above table 100% respondents from each respondents were want to get benefit from government in related to tax.

s. Views on best income tax rate for manufacturing organization

The field of survey has been conducted to know the views of different respondents about to explore the best income tax rate for manufacturing organization. The question was asked, “In your opinion what should be the best income tax rate for manufacturing organization?” T respondents were request to selected one among the three alternative (15% - 20%, 20% - 25%, 25%- 30%). The responses received from respondents are tabulated below.

Table No. 4.30

Views on best income tax rate for manufacturing organizations

Respondent	15-20%		20-25%		25-30%		Total	
	No.	%	No.	%	No.	%	No.	%
Plastic udhyog	4	67	1	16	1	17	6	100
Metal udhyog	3	75	1	25	-	-	4	100
Food processing udhyog	4	100	-	-	-	-	4	100
Soft drink udhyog	1	100	-	-	-	-	1	100
Total	12	80	2	13	1	7	15	100

Source: Field survey, 2009.

From the above most of the respondents about 80% agreed with the rate fall in between 15 - 20 percent. Only 7% respondents suggest to increase rate 25 – 30 percent and 13 % agreed with present rate (20 – 25 percent). 67% from plastic udhyog, 75% from metal udhyog and 100% from food processing and soft drink udhyog suggest to reduce tax rate in between 15 - 20 percent.

4.3 Findings

4.3.1 Finding from Secondary Data

The major finding of this dissertation are summarized as follows:

-) The major sources of the government revenue is income tax. It many enhance the revenue of the justice and encourage private sector investment.
-) External revenue and internal revenue are included in government revenue. Tax and non tax revenue are the sources off internal revenue. These is dominated role of the tax revenue in Nepalese government revenue but contribution of tax revenue shows the

increasing trend as it has contributed by 79.12% in FY 2007/08 on the total but in the non tax revenue was fluctuating trend it was 20.88% in FY 2007/08.

-) Nepalese tax revenue is the composition of direct or indirect tax there is dominated role in indirect tax revenue. The direct tax was high in FY 2007/08 by 27.11% indirect tax was also fluctuating trend it was 78.50% in 1995/96 and 72% in 2007/08.
-) The tax GDP ratio of Nepal is not found satisfactory compare to other developing countries. The GDP ratio in FY 2007/08 12.09% and non tax revenue was 3.19%.
-) Indirect tax revenue is the composition of custom duty, vat, excise duty and other tax. The contribution of custom duty, VAT excise duty and other taxes, the custom duty has occupied the first position and VAT has second position.
-) Direct tax revenue is the composition of tax an property, profit and income and land revenue registration.
-) Nepalese income tax revenue is composition of income tax from public enterprises, some public enterprises, private corporate bodies, individuals, remunerations and tax on interest.
-) Income tax is the important source of internal revenue of government.
-) Income tax exemption limit in Nepal was Rs. 7000 for all taxpayer in 1959/60 but at present income tax exemption limit is Rs. 160000 for individuals and Rs. 200000 for couple and family, in 2066/67. The exemption limit is not provided for partnership firms, corporation and non-residents. It is found that exemption limit has been changed on the need of time and income.

Relations between income tax and Direct Tax Revenue, Tax Revenue, Total Revenue, GDP have been found a perfect position correlated.

4.3.2 Findings from Primary Data

From the opinion survey the followings have been drawn.

- Tax is a suitable means of raising domestic resources.
- Tax paying habit of Nepalese people is poor.
- The present level of revenue collection of the government is not satisfactory. There should be attempt to increase it.
- Income tax system of Nepal has not reached at the satisfactory level yet. Inefficient income tax management lack of education to tax payers complicated tax act rules and regulation etc are considered as the major problem in income tax system of Nepal.
- Misuse of power by tax administrators lack of consciousness of tax payer lack of sufficient training facility to tax personnel etc are the major problems of income tax management.
- Effective fees, fines and penalties system can help to increase the tax paying habit of Nepalese people.
- Lack of trained and competent tax personnel complicated tax law, delay in making assessment etc are the major cause of ineffectiveness of Nepalese income tax administration.
- Clear act, rules and regulation honest tax officers effective tax administration are the important factor for effectiveness of income tax in Nepal.

Identification of the problems faced by Industries situated at Patan Industrial estate are as follows:

-) Frequent change in tax act.
-) Unclear definition of income.
-) Corruption.
-) Unclear provision of present income tax act.

-) Lack of systematic evaluation and control mechanism.
-) Discretionary power of tax administration.
-) Improperly implementation of tax act.
-) Inadequate facility and benefit.
-) High tax rate.
-) Lack of good tax audit personnel.
-) Tax submission procedure is also lengthy.
-) Defective tax administration.

Following suggestion are given by tax officers who has been working in manufacturing industries situated at Patan estate are given below :

-) Tax administration should be made efficient .
-) Tax submission procedure make simple and avoid unnecessary process.
-) Clear cut provision should be made wide spread discretionary power of tax administration should be reduced.
-) Make better tax information system.
-) To make tax officer competent comprehensive training should be given to them. S
-) Provide incentive package to motivate tax industries.
-) Reduction corruption.
-) Provide benefits and facilities to industries.
-) Make computerizing tax administration .
-) There must be a policy of rewarding for honest and dutiful personnel and punishing the dishonest and corrupted one.

CHAPTER -V

SUMMARY CONCLUSIONS AND RECOMMENDATION

5.1 Summary

The Nepalese income tax system was introduced in 1959(2016). The elected government levied the first income tax and so specified act was made to define and to treat income tax. Since then four Income Tax Acts have been implemented. The present study entitled Income tax system in Nepal. This study has covered the structure of income tax system in Nepal, structure of direct tax in Nepal, tax and non tax revenue in Nepal, composition of direct tax and indirect tax revenue in Nepalese tax structure. Moreover, role of income tax in Nepal is also presented and analyzed. This study incorporates to examine the effectiveness of income tax collection in Nepal.

Tax is a compulsory contribution to the government made without reference to a particular direct benefit received by the tax payer. Taxes are levies primary to raise revenue for government expenditures. The relation between taxation and economic development has long been a matter of concern to policy makers and student of public finance.

In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the economic development. Total expenditure of Nepal government has been increasing every year due to the expansion of government activities. Nepal is always facing with the financial problems every year. There is a serious problem of resource gap which is in increasing trend. In Nepal, government accumulates require fund mainly from internal and external source to finance regular and development expenditure. Because of the inadequacy of the internal sources for the development of the nation, Nepal comes under

compulsion to rely on foreign loan and grants. Nepal has been unable for proper mobilization of internal resources therefore fiscal deficit of Nepal has been increasing day by day. Among the internal resources tax is pivotal one. Tax should play important role to solve the problems of fiscal deficit.

But in Nepal actual collection of revenue though tax is lower than estimated targets it is so because of the poor tax paying habit of Nepalese tax payer, poor tax administrative system and widespread evasion of tax.

Tax revenue can be classified as direct tax and indirect tax. Income tax is the main source of direct tax and custom duty, VAT and excise duty are the main part of indirect tax. all these taxes are regulated by custom act 2019, VAT Act 2052 income tax Act 2058 and Excise tax Act 2058 respectively.

Large part of the total tax revenue is generated from industrial sector. Due consideration must be given that tax is not levied in such a way that it creates in inductive environment for industrial growth in order to safeguard the industrial sector from excessive tax burden, Industrial Enterprise Act 2049 has been formulated and in practice. Section 15 of IEA constitutes of various types of tax concessions and rebates provided to industrial sector in order to make the environment of industrial investment more congenial straight forward and encouraging the IEA emphasizes on providing tax rebates and concessions to export oriented and indigenous industries.

Secondary analysis was done by presenting the relevant data into tables and figures consisting thirteen-years period, i.e. from fiscal year 1995/1996 to 2007/2008. The comparative analysis for different years was done in the analysis part of the study. Major findings of the

secondary data analysis have been put at the end of the chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result.

This study has tried to present clear picture of income tax problem in manufacturing companies. Effort has made to maintain balance between the theories and actual practices. The researcher hopes that the study has been completed with the successful achievement of the stated objectives.

5.2 Conclusions

Contribution of tax for the economic development of Nepal has been increasing significantly in recent years as compared to past fifteen years. But, it doesn't mean that the share is satisfactory. So, much effort should be made to increase it. Presently, income tax management is done through the income tax act 2058 in which the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought out by change in technology and economic policies. However, still its working procedures are traditional and cost of administration has not been brought to the satisfactory level. Its 2058 has blamed that the law is complicated and vague. There needs the effort for simplification of the law. If the tax law fails to be far with the international tax norms it will not be able to attract the foreign investment. The tax law should be coherence with the economic situation of the country.

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. Significantly in recent year.

Industries are facing serious tax related problems like delay procedure, frequent change in tax act, unclear definition of income,

corruption, defective tax administration and so on. They are unsatisfied with present tax policies and system. They need modification in present income tax act 2058. According to them this act fails to achieve its objectives.

For the success of income tax system, the tax management needs to be reoriented towards effective implementation of new act. Manpower development planning with the administration is desired for the deficiency of tax personnel. Similarly, tax education packages are to be made and initiated to familiarize people with the existing tax laws.

The tax policy needs a clear cut and long term vision. Frequent change in fiscal policies and programs show a never ending phenomenon of transitional period. It is difficult but not impossible to think over very seriously by concerned high authority and general people to bring income tax system in the right direction and right shape in order to enhance the economic development of Nepal.

The main weakness in the formulation of tax policies is its formulation without considering other policies. Industrial and trade policies have to be considered, while formulating tax policies which is done in the context of Nepal. Similarly, introduction of several tax measures on a hasty basis and interference of political powers in the formulation of tax policies are other reasons for defective tax policies.

5.3 Recommendation

On the basis of findings of this dissertation and information provided by account officer/tax officer of different manufacturing companies situated at Patan industrial estate has made following recommendation.

-) The objectives of income taxation should be growth redistribution and stabilization the income tax policy should be properly formulated on the basis of critical analysis of existing situation.

-) In the course of our study work, it has been found that not even a single company dealing with tax has no separate tax department. There are no tax executives in the companies in all the sample companies. The matters relating to tax are handled by finance officer or account officer. They may not have adequate knowledge about tax matters. Tax matters can be handled properly by the tax experts only. So it is recommended to set up a separate tax section which manages these matters by tax experts in the companies. The legal provision also should be made in this regard so that the tax practice of manufacturing companies would increase.
-) In Nepal, no distinction is made between resident and non-resident companies regarding the tax rate under the existing provisions of ITA. Both the companies are required to pay tax at the same rate. In many countries of the world foreign companies are taxed at a higher rate than the domestic companies. Because of the difference in scope and coverage of the taxable income of their two groups of companies the tax rate should be different for those companies. As the domestic companies pay tax on income earned. In Nepal only, the domestic company should be taxed at a lower rate than the foreign company.
-) Government should bring the policy to simplify the tax laws, increase the efficiency of tax administration and simplify assessment procedure.
-) Due to block, strike and uncontrollable situations occurred in the past days in Nepal.
-) Focus should be given for proper implementation of present tax policy.

-) Present definition of income is vague. So, there should be made clear definition of income what should include or excludes emphasis should be given on the full implementation of the policies already introduced rather than introducing the new ones, stop delay procedure, shouldn't make frequent change in tax act and discretionary power of tax administration should be reduced.
-) Due to low level of penalties and fines the income tax payers are encouraged to make illegal practices, taking the 100 poles in tax laws suppression of sales, overstatement of expenses and under statement of income seem very natural among the private companies as the companies hesitate to give the tax related information. So to control such practices of companies strong detection mechanism should be developed and levy fines and penalties in case of detecting such practices.
-) Presently the Inland Revenue department controls the administration of income tax, excise duty, Vat and other taxes. However, as per findings, administrative inefficiency has been the main reason for obstructing the implementation of various taxes. Hence, it is necessary to upgrade the skills and efficiency of the tax officials. Training should be imparted to them in various aspects of taxes like tax audit, legal matters and computer so as to increase their efficiency. Personnel management system should be developed under which evaluation of tax officials must be done on the basis of their overall performance.
-) Government should bring the policy to simplified the tax laws, increase the efficiency of tax administration and simplify assessment procedure.

-) Tax audit is very important for the success of self assessment system. Thus good knowledge of accounting and auditing is must for tax personnel.
-) Effective reward and punishment system should be established.
-) To make the administration capable of facing new challenges there should be improvement in professionalism as well as development of new professional ethics compatible to be changed context of liberalization.
-) In Nepal no distinction is made between resident and non-resident companies regarding the tax rate under the existing provisions of ITA. Both the companies are required to pay tax at the same rate. In many countries of the world foreign companies are taxed at higher rate than the domestic companies. Because of the difference in scope and coverage of the taxable income of their two groups of companies, the tax rate should be different for these companies. As the domestic companies pays tax an income earned. In Nepal only, the domestic company should be taxed at lower rate than the foreign company
-) Acts and rules relating to various aspects of tax as well as the industrial policy should be amended as per the requirement of business organization. Similarly, government should bring a policy to encourage the private sectors to invest in remote areas. And also clear cut provision should be made.
-) Due to block, strike and uncontrollable situation occurred in past day in Nepalese industries bared huge loses. So government should provide tax exempt to the industries.
-) Rebate should be provided to regular taxpayer.

-) Training must institutionalized tax personnel should be given comprehensive training on various aspects of taxation in a parse wise manner. Similarly sufficient incentive to the employee should be given.
-) Government should form a special committee to carry out the serious problems and make suggestion to these problems of industries and make simple appeal procedure to refund the tax in VAT.
-) The government should efforts to find out the major causes of the tax evasion and adopt the proper method to minimize the evasion practice to the companies. For this purpose it is suggested that the government should improve the assessment and collection system, use strict penalty to all practice which help in tax evasion, improve administration and information system minimize illegal business, enforce to maintain accounts and convince the taxpayers by its equitable collection and expenditure policy to reduce tax evasion.
-) As the income tax payers in Patan Industrial manufacturing company are facing many problems such as ill behavior of tax administration, complexity of income tax law and income tax procedure such problems should be removed using appropriate methods.
-) Timely revision should be made in the matter of income tax policy.
-) One of the main problems of industrialist are facing while importing raw materials or exporting their goods is the lack of proper transit facilities. The lack of proper transit faculties increase the price of the goods for valuation which also praise the custom revenue but is negative impact is very strong that the goods are

imported without paying custom duty through under invoicing. Nepal has already obtained the membership of WTO. This will improve transit facilities on one had discharge the importers from evading custom duty due to low cost of transit.

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4. Do you think tax officers have wide spread discretionary powers in Nepal?
Please tick.
Yes () No ()
5. Do you think VAT is creating complication in maintaining proper book keeping system?
Yes () No ()
6. Is the present rate of penalties and fines imposed under Income Tax and VAT acts is very high? Please tick.
Yes () No ()
7. Do you think that tax administration in Nepal is efficient? Please tick.
Yes () No ()
If no, give region.
- Frequent changes in tax laws ()
 - Lack of trained and competent tax officials ()
 - Lack of computerization ()
 - Lack of voluntarily compliance by the payers ()
 - Traditions and complex procedure ()
 - Others, Please specify ()
8. Do you think the present tax system of Nepal is effective? Please tick
Yes () No ()
If yes, please point out the reasons (Answers on 1 to 3 scats)
- Fair tax rate and exemption limit.
 - Appropriate assessment procedure.
 - Effective tax administration.
 - Others
9. Do you think exemption limits in income tax should be provided to an entity like in the case of individuals? Please tick.
Yes () No () Don't Know ()
10. What do you think about the existing income tax rates? Please tick.
High() Low () Neutral ()
11. Do you think rebates should be provided to regular tax payer? please tick.
Yes () No() Don't Know ()
12. Have you faced any complication in paying tax? Please tick.
Yes () No()
If yes, rank the following:
- Complex tax law and procedure ()
 - Administrative inefficiency ()
 - Corruption ()
 - Others (Please specify)

