

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a small, least development and land locked country situated between two large countries China and India. It has a lot of problems are well as prospectus, too. Unemployment is said to be the biggest problem of the country. Most of the people of the nation are engaged in traditional type of agriculture. The annual per capita income of the country is US\$311. Even with in the country, there are regional variations in per capital income. The Kathmandu Valley has the highest per capital income of US\$ Urban income local is more than double the rural income, reflecting wide intra-country disposition is per capital income.

Major parts of its land area are concerted by hills and mountains which account for about 83 percent. The Terai region contains of 17 percent. Because of its land locked situation, the historical and topographical feathers and other problems of development, the country presents its own distinctive unusual features in the process of economic development. More than 85 percent of Nepalese people live in rural areas and more than 40 percent of them enjoy income below the poverty live. Most of the people living in rural areas are not getting even minimum facilities of life because of under development and wide spread poverty.

Nepal is an agricultural country. The predominant position occupied by the agriculture sector in the Nepalese economy is born out of the fact that more than 81 percent population of the country is dependent upon agriculture which contributes about 39 percent to the total GDP. Agriculture is the major supplier of raw materials to industries.

The constitution of Nepal has clearly directed Nepalese government for a self-reliant economic system encouragement to national enterprises, preventing of economic system encouragement to national enterprises, prevention of economic exploitation as well as upgrading the standard of the people. In self-reliant economic system and sound infrastructure for the development, the government should generate

sufficient its revenue. Government revenue is most important source of financing government expenditure. To achieve the national objective, the government is required to make and implement various plans, policies and procedures. Besides these functions, revenue mobilization is one of the most important functions of the government (Pradhan, 2001: 1).

In any country of the world capital plays a vital role in its development programmes for the economic development of the nation bank capital is needed to conduct to any development programmes. The capital is raised from external and internal sources. The external sources are foreign aids and loans internal sources are tax revenue and non-tax revenue. The government receives tax revenue as a compulsory payment when non-tax revenue is a conditional source. Fees, penalty, fines and forfeitures: received from rent of government property and services, dividend, interest, royalty and sale of government property, principal payment, donation and miscellaneous income etc. are the sources of non-tax revenue. Income tax, sales tax/VAT, customs duties, hotel tax, revenue from land registration etc are the sources of tax revenue of them; tax revenue is major source of the internal revenue as well as the macro-economical fiscal instrument of the government (Paudel, 200: 1).

According to Goode "A tax is compulsory contribution to government made without reference to a particular benefit recovered by tax payer. It is a personal obligation to pay tax and there is no direct relationship among tax, benefit and individual taxpayers."

According to Adam Smith, "A tax is a contribution from citizens for the support of the state." The primary purpose of the taxation is to direct control of economic resources from tax payers to the state for its own use or transfer to others. Bringing about economic growth, elasticity in the tax structure, control of international pressure and reduction of inequality are the main objectives of tax policy.

Taxes are broadly classified into two groups: direct tax and indirect tax. Direct tax is a personal tax, if the same person to whom the tax is legally imposed and there is no possibility of shifting pays it, and then it is called direct tax. Examples include income tax; property tax etc. On the other hand, indirect tax is a commodity and service tax. If any tax is legally imposed for one person but the incidence of the

tax is borne another person through backward and forward shifting process. Then it is called indirect tax. Value Added Tax (VAT), hotel tax, custom duty etc are example of indirect taxes.

Income tax can be classified into two types: personal/individual income tax and corporate income tax. Individual income tax is a modern tax, which is measure of ability to pay of any individual. It is based on the progressive rates. Corporate income tax is levied on the business enterprises having a legal personality, distinct from their owners. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate income tax. Reducing in equality of income distribution, stabilizing the economy and checking inflation are main objective of income tax. Among them reduction of inequality of income distribution is the greatest merit of income tax.

Income tax should be justifiable to achieve maximum social and economic objective. It helps in redistribution of economic means by the transformation of wealth from persons with higher economic level to economic level. It should minimize gap between rich and poor. Regional economic imbalances may be reduce by providing incentives and concessions in income tax for stating new industries in backward areas. It has become an effective instrument to ensure balanced socio-economic growth. Income tax also helps to increase the consciousness of people because the people who have paid the income tax are interested on public expenditure. Though they cannot expect any direct benefit from their tax paying, they can observe the use of the collected fund from them in from of income tax. It is also helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see that public money may not be misused. Income tax is essential not only for collecting government revenue but also for controlling over consumption for promoting saving and for generating were employment (Lal, 1996: 10).

The Great Britian was the first country that introduced modern income tax in 1799 to collect revenue to finance, Napoleonic war with France. In 1862, the United States of America (USA) introduced income tax to generate revenue to finance civil war. The Federation Corporation Income tax was introduced in 1909. In India, modern tax was adopted in 1960. In Nepal income tax was introduced in 1959. Both individuals and companies were taxed in similar way during the earlier period but

later as companies were levied with a flat rate and individuals with progressive rates (Poudel, 2002: 5).

This study has also been designed to study the contribution of income tax from public enterprises to government revenue of Nepal. PEs play catalytic role in social and economic development power of nation. In Nepal, after the down of democracy in 1950 there emerged all environments in which, the needs and aspirations of the people more given primary. According, the Government of Nepal has initiated a system of establishment, functioning of PEs with huge investment for economic development. PEs highly contributes in national exchequer by various ways i.e. direct participation in production, distribution of goods and services and other income generation including income tax. PEs has become both necessary and useful as vehicles for development in developing nations. They are being loaded upon as effective instrument of programme one implementation of accomplishing the desired national development goals. PEs contributes a large and rapidly growing sector of the economy in the majority of countries in the world today including Nepal.

The economy of Nepal is basically mixed economy where all the public and private sector freely operate in the business environment except in the case of defense, which is not open to private sector. There is coexistence of both public and private sectors in Nepal for the overall development of the country.

Nepal is one of the under developed country which is still in the crawling stage of industrial development. So, in Nepal, PEs are not matter of choice, rather they are a matter of necessity. In various sectors of economy, where private sector has not come forward or has only in limited extent, the public sector has to come into existence. The area in which they operate, range from basic infrastructure, industrial estates, banking, trading and commercial sectors to a big small PEs to create industrial base in the country, to provide better goods/services to the people, to generate employment opportunities to mobilized the domestic resource into best productive used and to fulfill the government plans and objective. PEs have helped to increase the standard of living to keep regional balance of development and they have contributed through import substitution export promotion and strengthening the revenue generation of the Government of Nepal and have freight currency by

reducing import as well as to provide the consumable goods/service at a fair price (Acharya, 2003: 3-4).

It is sure that Nepal needs to make fairly extensive use of PEs as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process.

The majority of PEs, where billions of rupees from the resources of a poor country Nepal have been poured, has failed to deliver expected services; their products are short of standard. The returns a negligible, PEs are becoming more and more burdensome and unable to shoulder their own burden.

1.2 Focus of the Study

The study is focused to analyze the structure of income tax and its contribution from public enterprises to government revenue in Nepal. The main focus of the study is on the following aspects of income tax in Nepal.

-) Structure of income tax in Nepal.
-) Contribution of income tax from public enterprises to government revenue.

1.3 Statement of the Problem

Most of the developing countries in the world including Nepal should make heavy investment of infrastructure and social and economic activities in the development of the nation. So, the government has no pressure to spending huge amount in education, health, physical construction and no many others areas. The growth of population, the emergence of strong local and central seen to be three reasons contributing to strong pressure to spend.

Nepal, being a developing and least developed country (LDC) in the map of the world, it has huge trade deficit with the neighbor country as well a trading partners. Its gross domestic product (GDP) per capital is US\$ 311 (Statistical Pocket Book of Nepal 2006) Nepal's GDP per capital is the lowest in the South Asian Association for Regional Co-operation (SAARC) countries. In agriculture sector which contributes 39 percent of GDP (SER, 2002) is still free from the income taxation. About 38 percent of total populations are below absolute line. That's why,

the government can generate only small portion of GDP as revenue and Nepal is always facing a problem of scarce resources for development activities. Few rich people have captured major economic sources and they are under taxed either because of tax avoidance or evasion and most of the poor people suffer from commodity tax (Poudel, 2002: 5-6).

Nepal has been facing service resource gap problem from the beginning of its development phases. The financial expenditure of government has been increasing at a faster rate than increases in revenue. Every year the resource gap is increasing at a faster rate due to slow increase in the rate of revenue to fulfill the expenditure requirement owing to the inefficiency of tax administration and incomprehensive tax etc. Resource gap is the difference between total expenditure and total revenue.

Resource Gap 1 (A-B)

In Annex No. 1 shows the resource gap i.e. total expenditure minus total revenue. It has been rapidly increasing from fiscal year 1992/93 to fiscal year 2006/07. The gap between revenue and expenditure rose from Rs. 15749.3 million in 1992/93 to Rs. 45887.60 million in 2006/07, which is about 2.91 times more than the fiscal year 1992/93. This figure shows poor performance of domestic resource mobilization.

Resource Gap 2 [A-(B+C)]

If it is considered that resource gap as the difference between total expenditure minus total revenue plus foreign grants, there was no resource gap in the first budget 1950/51. This type of gap started from the budgeted speech of 1956/57 in which year it was 0.7 million which stood at Rs. 11956 million in 1992/93. It further rose in subsequent years and reached to Rs. 30086.79 in 2006/07 which was 2.516 times more than that of 1992/93.

Resource Gap 3 [A-(B+C+D)]

If resource gap is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. This type of resource gap started from 1964/65 when the gap was Rs. 9 million. In 1992/93 the gap was Rs. 5035.10 million

in 2006/07, it was Rs. 20033.29 million, which increase by 3.979 folds as compared to 1992/93. All kinds of source gap are shown in the following In Annex No. 1.

If any government has a resource gap, it has to resort a deficit budget. There was a large portion of foreign grants to meet the budget deficit in the early year's budgets in Nepal.

But in recent years, the percentage of foreign loans in rising and of grants in decreasing. It is not a desirable direction in our country. Excess reliance upon foreign loan creates extra burden to the economy because debt servicing charge increasing every year. The foreign loan should be taken as a complementary resource to the internal resource mobilization.

In fiscal year 1992/93 the foreign loan in Nepal was Rs. 6920.90 million. Then it started to increase and reached to Rs. 10053.5 million in 2006/07. Most of the developing countries, the government collect about $\frac{3}{4}$ of the tax revenue from indirect taxes because of the several reasons such as administrative difficulty, lower level of public awareness about paying taxation, easiness of collection. But theoretically, direct taxes are more progressive and justifiable on the ground of equity. The indirect tax is a extra burdens to the people especially in poor people by raising price of the commodity. It does not create public consciousness and it has a little role to reduce income inequality. But, Nepalese tax structure is severely dominated by the indirect taxes. However, its relative contribution is declining which is a positive development.

In fiscal year 1992/93, the share of direct tax to total tax was 17.46 percentage and that of indirect tax to total tax was 82.4 percentage. In 2006/07, it was 26.68 percentage and 73.32 percent respectively. The contribution of indirect tax was about $\frac{3}{4}$ of the total tax yet. The contribution of direct tax and indirect tax is given in Annex No. 2.

Richer Nepalese people have lack of tax paying habit and tax consciousness. The tax evasion and audience habit is increasing day by day due to low standard of education for tax responsibility to tax payers. Whereas in western and developed countries the tax evasion is considered as a social crime. In Nepal this Act is regarded as an intelligent and claver in the post of tax payer.

Because of the tax evasion habit of Nepalese people, role of public enterprise towards income tax revenue is very justifiable. Income tax from public enterprise should be adopted as a fiscal instrument in government revenue, which helps to achieve the goal of national development. But the majority of public enterprise has been unable to deliver their expected services productivity and returns are very poor. Financial position of public enterprise is unsatisfactory level public enterprises are likely to become an increasing burden on government. They can not even maintain their books of accounts and most of them have not audited regularly. Even profit making PEs are escaping from income tax because of not maintaining the books of accounts un-audited financial statement, intention to hide their inability low level of moral and honesty.

So, this study has centered on the following problems as statement of the problems:

- i. What is the income tax structure of Nepal?
- ii. What is the contribution of Income Tax from PEs to government revenue?
- iii. What is the contribution of Income Tax from PEs to Tax Revenue?
- iv. What is the contribution of Income Tax from PEs to Direct Tax Revenue?
- v. What is the contribution of Income Tax from PEs to corporate Income Tax Revenue?

1.4 Objectives of the Study

The main objective of the study is to analyze the contribution of income tax from Public Enterprises to Government Revenue in Nepal. The specific objectives of the study are as follows:

-) To analyze the structure of income tax in Nepal.
-) To analyze the performance of PEs on the basis of Gross profit.
-) To analyze the contribution of Income Tax from PEs to government revenue.
-) To analyze the contribution of Income Tax from PEs to Tax Revenue.
-) To analyze the contribution of Income Tax from PEs to Direct Tax Revenue.
-) To analyze the contribution of Income Tax from PEs to Corporate Income Tax.

1.5 Significance of the Study

Various studies have been conducted regarding tax system in Nepal and different report about the taxation system are also available. But very few studies have been done conducted about structure of income tax and its contribution from public enterprise to government revenue. So, this is the main reason to under take this study.

Income tax plays significant role in the overall economic development in developing countries where in the developed and developing countries, income tax occupies a very important role in developed and developing countries, income tax occupies a very important role in the over all tax structure of the country.

Nepal is one of the lowest taxed economies in the world in the world as the tax/GDP on well as tax/GDP ratios are the lowest among SAARC countries and among the rest of the world as well. This indicates the poor performance of income tax management in Nepal. For the economic development of the country contribution of direct tax is more necessary rather than indirect tax but the whole tax structure of Nepal is dominated by indirect tax. In developing countries like Nepal, the importance of income tax can not be minimized for reducing economic resource mobilization. It may be a useful instrument of measure the economic standard of people.

This study is needed to examine the structure of income tax, contribution of income tax from public enterprise to government revenue, various aspects of tax administration. In view of the growing necessity of mobilization adequate resources for meeting the increasing financial requirement of Government of Nepal for development purpose income tax seems very important source. Even though it has direct impact of taxpayer in seems to be a potential source. Therefore, analysis of structure and its contribution from public enterprise to government revenue has been under taken for this study.

Besides, this study will also useful for tax plan new banks tax authorities and many others like teachers, students, further researcher and people who are interested as it. Moreover, it will be useful to government to formulate and amend the proper policy in compatible to attain the objective of income tax.

1.7 Limitations of the Study

Any research study is limited to the time period, area of the study, information and data. This study has also some limitations. They are as follows:

-) This study has concentrated on the structure of income tax and contribution of revenue from public enterprise to the government of Nepal.
-) This study has covered only past year's period i.e. from the fiscal years 1992/93 to 2006/07 make the trend analysis of contribution of revenue from income tax of PEs.
-) This study was fundamentally based on secondary sources of data.
-) This study was limited to secondary information and data collection from Ministry of Finance. Inland Revenue Department, Nepal Rastra Bank, Economic Survey and Finance Act and Budget Speeches.
-) Time and resource constraints are another factor with limited the scope of the study.

1.8 Organization of the Study

This study has been dividend into six chapters viz. introduction review of the literature, research methodology, income tax structure and contribution of income tax from public enterprise to government revenue of Nepal and summary, findings and recommendations.

The first chapter contains introductory aspects of the study e.g. background focus of the study, limitations of the study.

The second chapter contains review of the literature, which deals theoretical framework; it has been described about concept of tax and income tax, historical perspective of income tax on international context, income tax in unified Nepal, Taxation in Rana regime, Introduction of public Enterprises, Meaning of Public enterprises, Public enterprises in Nepal, role of public enterprises in Nepal Economy, taxation in modern Nepal, Business Profit and Remuneration. Tax Act 1960 (2017), Income Tax Act 1962 (2019), Income Tax Act 1974 (2031) and Income Tax Act 2002

(2058). In review of related studies, some related these books, articles and report have been reviewed.

The third chapter describes the research methodology followed during the study has been presented. It includes research design population and sample nature source of data, data collection procedure and data processing and analysis tools.

The fourth chapter of the study is about data presentation and analysis. It includes tax and non-tax revenue tax/GDP ratio in Nepal composition of direct and indirect revenue in Nepalese tax revenue, contribution of various taxes on percent to GDP components of direct and indirect tax contribute of direct tax as a percent to GDP, government revenue and total tax structure of income tax etc. It also includes performance of public enterprise on the basis of Gross Profit, contribution of income tax from PEs to government revenue of Nepal, contribution of income tax from PEs to tax revenue from Nepal, contribution of income tax from PEs to direct tax revenue, to total tax, to corporate tax and major findings.

The fifth chapter of the study is about summary, conclusion and recommendations.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Theoretical Framework

2.1.1 Concept of Tax and Income Tax

Concept of Tax

Tax is a compulsory payment to the government. Tax payers 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 to central or local government to spend for philanthropic work. The main objective of tax is to distribute wealth and income equally. Mainly, tax is classified in two groups. The direct tax and indirect tax (Adhikari, 2003: 2).

Taxes are compulsory levies on individuals, firms, companies and other units for general government purposes. Government with authority assigned indifferently levies on individuals, firms, companies and other units, which are generally termed as taxes. So, taxes are compulsory payments to government to support the public services. According to economist Prof. E.R.A. Seligman "A tax is compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without reference to special benefits conferred."

According to classical economist Dalton "A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of services rendered a penalty for any legal office."

According to economist Plehn "Tax is general contraction of wealth to review upon persons, natural or corporate to defray expense incurred in conferring common benefits upon the resident the resident of the states."

According to classical economist Adam Smith "A tax is a contribution from citizens for the support of the state."

According to P.E. Talyer "A tax is a compulsory payment to government without expectation of direct expenses of direct return in benefit to the tax payer."

According to Fridly Shrinas, "Tax is an compulsory contribution to public authorities to meet the general expense of government which have been incurred for the expense of government which have been incurred for the public good and without reference to special benefits."

In classical economics, tax was taken as an extra burden to the people and the economists have in the farmer of small government, which only had 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 is revenues.

Concept of Income Tax

The concept of income tax indifferent countries is found differently because of diverse economic structure, nature of the government and status of people. In limited status, income tax is viewed, as a matter of practice, recurrent is non relevant to tax status. In United Kingdom, the original concept of tax was that of a levy was recurrent income and the tax was applied to five schedules any item not falling with in one of the five schedule not being subject to tax. In India, the personal income tax is levied on the net income of all individuals, joint Hindu families, unregistered firm and other associations of person (Chellian, 1959: 111).

Income tax is a personal tax imposed on net income of individuals and corporation. In most of the countries especially the United State of America, Canada and other countries, the income tax i.e. defined in terms of the flow of wealth of receipt in money for goods from the taxpayer during the period. In flow of wealth method, taxations is imposed on a realization rather than as an accrual basis, and the applies only when a transaction occurs between old person and tax payers (Due, 1959: 1251-126).

According to tax economist, "An income tax is a heavy imposed upon 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 and abatements." (Siwakoti, 1987:21)

"An income tax is also levied on the capital gains of individuals. All incomes above tax exemption limits are subjects to income is depended upon the income tax act of the country." (Due, 1959: 181)

Income tax is levied according to the ability to pay as the principle of taxation. There, the person who is liable to pay or who may be deemed to be liable to pay tax on income is called 'assesses'. In this case, a person implies individual firm, company, corporation etc. which have liability of paying income tax. The tax payer whom the tax is imposed must bear the burden of tax.

In Nepal, income tax is defined as the tax levied on net income derived after deducting the allowable deductions and relieves from the total income. Income tax is levied on the income derived from business, employment and investment. Income tax is always levied on the net income i.e. total income less the allowable deductions.

Income tax can be classified into two types: personal/individual income tax and corporate income tax. Individual income tax is modern tax which is measure of ability to pay of any individual. It is based in the progressive rates. Corporate income tax is levied as business enterprises having a legal personality; distant from their owners. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate income tax.

2.1.2 Historical Perceptive of Income Tax on International Context

Tax collection by the state was started parallel to the origin of state. The ancient Hindu Philosopher and writer Kautilya, Manu and Yagyankalka argued, "As the ripe fruit is picked from the garden leaving out the unripe ones, also should be taken only from these who are able to pay." (Bhandari, 1994: 33)

Income tax was first introduced in 1799 in Great Britain in order to finance war with France. The supporting documents were not found about the presents of this tax was that it was preferable as a substitute for custom and excise duties in raising revenue. It remained more or less a temporary tax until 1960 when it got accepted as a permanent tax (Siwakoti, 1987: 26).

In USA, the first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became permanent feature only in 1913 after the sixteenth

amendments to us contribution. Newzeland adopted income tax in 1981, Australia in 1915, Switzerland in 1840 and Canada in 1917. After World War I, the income tax become in important source of tax revenue in many developed countries and had mode appear once in a number of developing nations. (Agrawal, 1980: 8)

Income tax received to its developed stage during and after the world war. Today, the personal income tax raise substantial amount of revenue in all industries countries of the free world and is employed although to a lesser extent in most developed countries. Today, the income tax has become the "sheet anchor" of the revenue system in the most advanced countries.

In the beginning, income tax was levied at a flat rate. The principle of taxing the income by progression if income was introduced in the United Kingdom and Newzeland in 1909.

Now a day, every country of the world has income. Income tax was introduced due to the cause of war and national emergences. Thus, the second name of the income tax is war tax. After the end of the war, the tax was named as income tax. Now a day, it has been important against poverty and in equality. (Agrawal, 1978: 6)

2.1.3 Introduction of Public Enterprises

2.1.3.1 Meaning of Public Enterprises

Public Enterprises is an institution operating a service of an economic character on behalf of the government, but as an independent legal entity, largely autonomous in its management through responsible to the public through government and parliament and subject to some directions by the government. Public enterprises are equipped on the other hand with independent and separate funds of its own and the legal and commercial attributer of the commercial enterprises.

According to Fridman, "Public enterprises is an institution operating a service of an economic as social character on behalf of the government, but as independent legal entity, largely autonomous in its government, through responsible to the public, through government and parliament and subject to some direction by the government equipped as the other hand with independent and separate finds of its own legal and commercial attribute of a commercial enterprise." (Shyam Joshi: 22)

According to Laxmi Naraya, "Public enterprises are autonomous bodies which are owned and managed by the government and which provide goods and services for a price. The ownership with government should be 51 percent or more to an entity public enterprises."

Public enterprises have assumed significant role in almost every countries of the world. There is no standard definition of its own. The term 'public enterprise' has been defined differently by different agencies and government to suit their own respective situations. U.N has defined PEs as "Those organization namely government enterprises and public enterprises which are entirely or mainly owned and controlled by the public authorities consisting of establishment which by virtue of their kind of activities technology and mode of operation are classified industries." (Profile of PEs in Nepal 1978:1)

PEs are establishment in order to prepare infrastructure services to produce to the required goods in the country and to help in controlling the price situation, to create opportunities for employment, to increase government revenues and to contribute significantly in the national development as well as to assist in the country's economic advancement. (Eighth Plan, 2048: 689).

Public enterprises play a very important role in most of developing countries. The role of public enterprises differs from country to country, basically due to political philosophy of existing governments public enterprises came into existence either by the way of deliberate policy of the government to bring certain activities under strict governmental control by creating new institution or by nationalizing them from private sector. The employment opportunities, to mobilize the domestic resources into best productive used and to fulfill the government plans and objectives, PEs have helped to increase, the standard of living, regional balance of developing and they have contributed through import substitution, export promotion and strengthening the revenue generation of government of Nepal and save foreign currency by reducing import as well as to provide the consumable goods/services at a fair price.

2.1.3.2 Public Enterprises in Nepal

Public enterprises in Nepal constitute a vital instrument for the socio-economic development of the country. It enjoys a strategic and crucial position in mixed economy. They have been established in many sectors for the overall development of the country with different goals and objectives since 1956, Nepal has witnessed growth and development of public enterprises. Government of Nepal has to play a vital role in the development of a country for this purpose, makes massive investment to create necessary infrastructure and run some of the large manufacturing industries to the people. (Mulepati, 2005:2)

Nepal Bank Ltd. A commercial bank was the first public enterprises to have a separate legal entity in Nepal. During the Second World War, some other public enterprises were established however, they could not make more progress.

Nepal started its planned economic development in 1956 with launching of first five years plan. Since, then the number of public enterprises has been increased substantially in the various field of national economy. There are 62 public enterprises before privatization and now there are 34 public enterprises. Some of them are in privatization process. Public enterprises can be classified as follows:

- i. Manufacturing enterprises
- ii. Commercial enterprises.
- iii. Financial enterprises
- iv. Public enterprises
- v. Development or service enterprises

2.1.3.3 Role of Public Enterprises in Nepalese Economy

Public enterprises have become both necessary and useful as vehicles for development in developing nations. They are being loaded upon as effective instrument of program implementation of accomplishing the desired national development goals. PEs constitutes a large and rapidly growing sector of the economy in the majority of country in the world today. Including Nepal, the economy of Nepal is basically a mixed economy, where the public and private sector freely operate in the business environment except in the case of defense, which is not open to private sector. There is coexistence of both private and public sector in Nepal for the overall development of the country.

Nepal is one of the under developed country which is still in its crawling state of industrial development. So, in Nepal PEs is not matter of choice, rather, they are a matter of necessity. Public enterprises play vital role to develop the overall economy of the country. The main roles are as follows:

- i. Development of infrastructure.
- ii. Success of economic planning.
- iii. Regional and balanced development.
- iv. Supply of essential commodity.
- v. Contribution to national fund.
- vi. Generation employment opportunities.
- vii. Attaining social justice opportunities.
- viii. Strengthening and maintaining economic stability.
- ix. Accelerating the rate of economic growth.

2.1.4 Taxation in Ancient Nepal

No reliable records are available about taxation in ancient and medieval Nepal. However, taxation took its earliest form in the actions to petty rules, scattered in various parts of the country, who extracted levies from the travelers and merchants. Though, land tax was the major source of revenue, there were also irrigation and religious monuments preservation tax in the time of king Anshubarma of Nepal. There was tax for purification of caste as well as cremation of the dead. At the Lichhavi Era, there were two main taxes. One was imposed in a certain place for certain product and other imposed equally throughout the country. In the inscription of Anshubarma, it is noted that, there were three taxes called "Trikar" (i) Bhagam (ii) Bhoga and (iii) Kara. Agriculture tax was called "Bhaga", animal husbandry was called "Bhaga" and "Kara" was in general the business tax and custom. The tax was payable according to the ability of the tax payer. (Bajracharya, 1973: 97)

The farmers were supposed to pay agriculture income tax to the government in 1/6, 1/8 and 1/12 shares of their total production depending upon the quality of land that they owned (Poudel and Timalsina, 1990: 1).

2.1.5 Taxation in Unified Nepal (1776-1846)

Taxation had a broad sense in the united Nepal. During this period, certain improvement was made in the taxation system. Revenue maximization was only the main objective of tax. Paicieg, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Scra and Kipat. The major sources of revenue were: Birta and Kipat taxes on land; Royal palace levies such as nalak, gadimubarak, chumawan, godan, government levies like darshan bhet, salawi, local levies on forest and natural resources, commercial taxes like customs, transit and market duties; mines and mints, export of forest products like wild life, hobs, drags, wax, birds, elephants and judicial fines. Taxes were collected at three levels, Royal Palace levies, government levies and local levies.

'Walak' was collected from each family on a regular basis and in period of national celebration or festival on a ceremonial occasion. 'Gadimubarak' was collected to finance the coronation ceremony of a new king. 'Chuman and Goddhaao' was collected to finance the sacred investiture and marriage ceremonies of Royal princes and princesses. 'Godan' was levied to finance funeral expenses when a reigning king died. 'Darhanbhet' was collected from both civil and military employees at the time of their appointment and confirmation. 'Salami' was collected from local revenue collection functions in the Terai region as an annual payment.

Taxes were imposed primarily on occupations and economic activities not on property. Tax base was very narrow. The Birta owner class had much influential role in political and administration. However, pota tax was introduced by Prithivi Narayan Shah in 1772 was regarded as a revolutionary measure in Nepal's fiscal system. It was not based on progressive tax principle. It was limited to small Birta owners and privileged members of the nobility did not pay pota. Only common people who lived on raikar lands paid the homestead taxes and other pota levies. There was no taxation of income in the modern sense of income tax. (Regmi, 1971: 55-74)

2.1.6 Taxation in Rana Regime (1846-1950)

During the Rana rule of 104 years, there were no formal levies but were imposed by the Prime Minister. There were no budgets prepared and proper records kept. There were no differences between Rana purse and government funds. Income and expenditure were not made public. The main source of revenue were the land tax,

customs and excise duties in the form of lump sum contracts, Royalty on supply of porters, solders and other business activities. Taxes were also collected from the government employees. There was no proper tax administration for collection or revenue. There were three traditional sources under which the state was able to acquire goods and utilize man power without using money as a income of exchange.

-) Mineral resource belonged to the state.
-) The state paid emoluments to its employees and functionaries partly or wholly through assignment of 'Jagir' or taxable lands and village tax return than through payment in cash and
-) The 'Jhara' system entitled the nine tenth century. Nepal state to exact porter age and other labor services from its subject without paying wages.

There were four main categories of agencies which collected revenue; Rajya, Birta, guthi and kiptat. The Royal family traditionally accrued income from special levies such as Darshan Bhet, Tika Bhet and Faltemubarak. 'Tika bhet' was collected on occasions of 'Vijaya Dashami' festival 'Faltemubarak' was collected at the time of the Indraajatra festival commemorating Prithivi Narayan Shah's conquest of Kathmandu, in September 1768. Other three levies know as Chumawan, Gadimubarak and Goddhawa were collected on a country wide basis on special Royal occasions. Saune and fagu were the most important levies, which were collected for meeting festival, ceremonial or ordinary expenses or a Royal palace. Main source of state revenue were:

-) Taxes: During the Rana regine, income were not taxed fiscal year raising regular revenue of the state treasury but for meeting specific expenditure of the Royal household or extra ordinary expenditures misstated by war or other emergencies. During 1855-56 Nepal-Tibet war, Jung Bahadur had imposed a tax in the incomes of selected groups. In 1891, Bir Shamsheer imposed a levy 1 percent on the official value of 'Jagir' assignments of government employees to finance transportation of water pipes supply in the capital. In 1882, Ranoddip Sing imposed a 50% tax on income made by fisherman in Deukhuri in the western inner Terai from the sales of fish.

-) Receipts from the state sector: The government gets revenue from the state ownership of natural resources mainly agricultural land, mines and forests.
-) State intervention in trade: There were two main forms of state intervention in trade namely, monopoly and state trading. The government conducted the activities of buying and selling of specific commodities for raising revenue and supplied the scarce commodities itself.

Kausi Tasaknana has been established after political unification. Its main functions were to receive and disburse revenues: obtain, store and issue supplies required by the government and perform other general function related to fiscal administrations. In the Rana regime, Junga Bahadur creates new development of treasury known as Sadar Mulukikhana to receive and account in government revenue.

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 out other salaries at a very small percentage. The salary was abolished in a administration system (Regmi, 1988: 24-40).

2.1.7 Income Tax in Modern Nepal

After the independence of the country in 1951, the role of government has drastically changed. Government was enforced to perform development activities besides regular functions. So, it was realized to imposed tax on business profit and remuneration. Consequently, finance act 1959, was passed. In 1960 (2017), a formal tax act was enacted in accordance with the provision in finance act, 1959 for the first time Nepal. In three years experience, the business profit and remuneration act, 1960 was found very narrow and vogue and it was replaced by the Nepal income tax act 1962 (2019). The income tax act 1962 remained till 1974 and income tax act 1974, also replaced it. Income tax act 2002 also replaced the income tax act 1974.

"No tax shall be levied and collected exception in according with law." (Constitution of Kingdom of Nepal 2047, see 73-1). The income tax law at present in the force in Nepal is income tax act 2002 (2058) and income tax rule 2002 (2058) made there under. Finance act is passed every year to translate the economic policy contained in the budge speech how law. It generally processes the rates and exemption limit for tax purpose and may delete, add or modify the provision

contained the income tax act. Decisions of Supreme Court in Nepal also act as procedures for income tax law purposes. The notification in Nepal Gazette or circular by in land revenue department classified and complements the legal provisions.

The legal aspects of income tax therefore, consist of provisions in the constitution, income tax act, finance act, income tax rules and decisions of supreme-court. Together, they make up income tax law in Nepal. Historical development of income tax law in Nepal is given below:

2.1.7.1 Business profit and Remuneration Tax Act 1960 (2017)

Income tax in Nepal was first introduced in the fiscal year 1959-60. It was taken as "Business Profit and Remuneration Tax." The imposition of the tax was governed by the business profit and remuneration tax act 1960 and rules made these under. This act consisted 22 sections. The silent features of this act were as follows:

- a. The basis for calculation tax liability for remuneration was the income of the current year, and for business profit, it was the profit of the preceding fiscal year.
- b. Tax on remuneration was to be deducted at source but the specified deduction was not provided.
- c. Only remuneration and business profits were subject to tax. Deductions were not specified for the purpose of calculated the taxable income.
- d. Salary of any diplomatic representative, foreign citizen, divided it share holders, profits to be spend on religious or public welfare activity, profits of local autonomous organization, allowances granted by Government of Nepal to ministers, assistant ministers, speakers, deputy speakers, chairman, government chief whip and leaders of opposition, crop from own land, money drawn from provident or saving fund were exempted from tax.
- e. The tax officer was empowered to assess tax on a best judgment estimation where tax return was not filed or false return was filed.
- f. The tax payer had a right to appeal against the tax officer's assessment to the local 'Bada Hukum' or 'Magistrate'. If he had not satisfied with the decision, he could appeal to the 'Revenue and Tax Court' after depositing fixed amount.

- g. Profits from large industries were granted a rebate as percent and profit from small industries were granted at a rebate of so percent (Business Profits and Remuneration Act 1960).

The foresaid feature of business profits and remuneration on tax act indicates that this act was granted to the tax officers in the math of tax assessment. Many loopholes and inadequate provisions were the main weakness of business profit and remuneration act. Those were the basic reasons way this act was repeated by Income Tax Act 1962 (2019).

2.1.7.2 Income Tax Act 1962 (2019)

This act was an extension of the business profit and remuneration tax act 1960 (2017). It had 29 sections. It was amended in 1972. The additional features of this amended act were as follows:

- a. Income was defined as all kind of income including income derived from business, profession, remuneration and occupation, house and land rent, investment in case kind, agriculture, insurance business, agency and other source.
- b. The basis was specified for assessing tax on the best judgment estimate of the tax officers.
- c. The personal as well as residential status of the taxpayer for tax purpose was defined.
- d. The procedures for assessment and collection of income tax were classified. Specific provisions were made for allowable deductions. Methods were also specified calculation of next income.
- e. Tax payment could be installments as well as advance system.
- f. The provision was made to constitute the net income assessment committee with five members.
- g. Provision was made for re-assessment of tax as well as rectification of arithmetical errors.
- h. Carry forward of losses was allowed for a period of two years.

- i. Provision was made for the exemption of income tax for new industries for a period no exceeding ten years.
- j. Agricultural income was brought under the scope of income tax for the first time.
- k. In agriculture income only $\frac{1}{4}$ of the total income was taken as net earnings and remaining $\frac{3}{4}$ of total income as expenditure while in case of net earning from rent of houses and land from investments and from professions 90 percent to total income was taken as net earnings and 10 percent as expenditure.
- l. There was additional provision of exemption for income Nagar panchayat, village panchayat, public organization, income of Nepal Rastra Bank, deposits of employees in the employees saving from salaries, any income notified in the Nepal Gazette.
- m. There was special provision of newly opened industry in which the Government of Nepal might wholly exempt income tax for 10 years and 2.5 percent exemption after 10 years (Income tax act, 1962).

The Finance Act 1966 (2023 B.S.) exempted the agriculture income fully from income tax. The Finance Act 1973 (2030 B.S.) restored agriculture income under the scope of income tax. Ten bighas of land were exempted and presumptive value of income based on the classified of land was also specified. This act was also not for from weakness. In order to keep the law in tune with the charges in the socio-economic environment million of the country, the need was felt for consolidating and amending the existing income tax law. Hence, income tax act 1974 was introduced.

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

Income Tax Act 1974 (2031) had been implemented in place of income tax Act 1962 (2019). Its basic frame work had been derived from previous act and it had 66 sections with clear cut provision of self assessment carry forward of losses for three years and precise definitions of related forms like tax, assessment of tax year of income, income of non-residence tax paupers etc. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992 to make it more practical and to eliminate confusing terms. In this act, certain provision were added and some provisions were amended from time to time so, the income tax act 1974 had become

more scientific and better organized with the progress of time. Nepal government enacted the income tax rules 1982 (2039) in accordance with sections 65 of income tax act 2031. Beside this act and the rules, the current finance act was also equally applicable for the proper administration of income in Nepal. Some of the silent features of this act 1974 as a mended are as follows:

- a) There were additional provision of exemption from income tax then the from a act such as income of Guthi, compensation for life insurance or after the expiry of the life insurance policy.
- b) It had made provision for self-assessment of tax for the first time in Nepal.
- c) Carry forward of loss was allowed for subsequent three years.
- d) It had classified certain definitions specially relating to tax, tax payer, taxable income, gross income, net income, personal status of the tax payers and non-resident taxpayers assessment of tax, philanthropic work, non-resident etc.
- e) Five sources of income had been specified. They were i) Agriculture, ii) Industry, trade, profession or occupations, iii) Remuneration iv) House and compound rents and v) others.
- f) Method of computing net income from each source including the deductions allowable had been specified.
- g) The act had made its obligatory for tax payers to register their industry, business, profession or vacation in the tax office. Any charges had also to be notified.
- h) Deduction was allowed for life insurance premium.
- i) Tax payers were required to keep accounts and records for their source of income and preserve these records for a period of six years.
- j) Procedures of assessment, collection, payment and refund of tax have been streamlined. Powers for search and seizure and been specified. Penalties had been increased. Various forms related to income tax had also been specified.
- k) Provision had been mad for exemption, either fall or partial, to the industrial enterprises, as provided in the existing Nepal law relating to industrial enterprises. (Income tax act, 1974).

Although, income tax act 1974 (2031) was for ahead than the previous act, yet it had many deficiencies and weakness. It had used many vague or unclear like 'reasonable', 'appropriation' etc. It had also provided high discretionary powers to the tax officers in the matter or tax assessment.

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

Income Tax Act 2002 has been implemented from 19/12/2058 B.S. This act had replaced the income tax act 1974 (2031), and other acts, relate to income tax Nepal government enacted income tax rules 2059 B.S. in accordance with the authority given under section 138 of income tax act 2002 B.S. Income Tax Act 2002 B.S. has 134 sections. Finance ordinance 2059 and 2060 has amended income tax act 2002 first time. Amended income tax act 2002 has dismissed the section 66. There are various additional provision in this act. Some of the silent features of the income tax act 2002 as amended are as follows:

- a) Income tax act 2058 B.S. has classified income into three headings: i) Business ii) Employment and iii) investment.
- b) The government allowances to windows, elder citizens or disabled individuals, gift, bequest, inheritance, scholarship, income of foreign officials, government bodies and non-profit making organization have been exempted from the income tax net amount of person privileged under bilateral or multilateral treaty, an agricultural income, income of co-operate societies based on agricultural products and dividend of such society etc. also exempted from income tax.
- c) This act has defined the income as "a person income from any employment, business, or in accordance with this act." It includes all kind of income received for the provision of labour a capital or both in whether from or nature in the taxable income.
- d) When income tax act 1974 (2031) was in practice, there were several exemptions and deductions provided by the act and other related acts. But now, there are no more exemptions and deductions except the ones provided for by the act.

- e) This act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- f) This act focuses on the self assessment system, and every assessment is treated as a self assessment. The tax officers can determine any the amended tax assessment within four years. The jeopardy assessment is essential when a person become bankrupt is wound up or goes into liquidation, a person is about to leave Nepal forever or to close down activity in any department in Nepal.
- g) Presumptive tax is limited to small taxpayers whose annual net income is up to Rs. 120000 or annual turnover is up to Rs. 120000 and are subject to flat annual taxes.
- h) The IRD is responsible for the implementation and administration of this act.
- i) This act has introduced the concept of administrative review to correct the administrative mistakes. Then In Land Revenue Department should give its decision with 90 days if the submission of objectives and if the department does not give decision with in the given time limit, the tax payers may appeal to the revenue tribunal.
- j) This act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15 percent of the amount of approved medical costs.
- k) A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent which is paid with respect to person's assessable income for that year.
- l) There is a provision of functional division of work among six officers. The division is to be made under the direction of Government of Nepal and other tax officers are under the direction of Government of Nepal and director general.
- m) This act has guaranteed the rights and secrecy of tax payers through the act and the strict punishment for not main training the secrecy is provided.
- n) The penalties are divided into two parts. The tax officers can levy only fines and interest and the court can levy penalties and improvement.

- o) This act has determined the rate of income tax itself for the first time, which used to be determined by the finance act in the previous years.
- p) For the purpose of calculating a person's income from any business or investment, there is provision of deduction related to overhead costs.
- q) The act has based on global income tax principle and brought all sources of income into the tax net and has treated in an equal manner this act has abandoned the itemized system of deduction and expenses are taken into account as a global manner not as a line by line basis.
- r) A pooled system of depreciation has been adopted in this act, in which assets are broadly classified into five categories. The depreciation rates 5 percent, 25 percent, 20 percent and 15 percent for class A, B, C and D respectively which are based on diminishing balance method of depreciation for class E, the rate is based on straight-line method.
- s) Capital gains are taxed explicitly under this act after four decades of the introduction of income tax. In case of capital gains, gains on the depreciation of business property are taxed as an ordinary income and in case of non-business capital gains only the gains from the casual sales of real property (land and buildings) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.
- t) A person has been defined as a resident whose place of abode is in Nepal and who lives in Nepal at any five or who lives in Nepal for 183 days or more with in the income year who is an employee of HMG posted abroad during the income year.
- u) Resident individuals and domestic companies are taxed on their world wide income while non-resident individual and foreign companies are taxed only on their income source in Nepal.
- v) The income of an approved provident fund is free from tax. But retirement payments in the hands of employees are taxable.

- w) Company is liable to pay tax separately from its shareholders. The bonus share, loans and advances to directors and shareholders, distribution made as liquidation etc. are also brought under the tax net in order to plug loopholes for avoidance.
- x) Investment insurance premium can be deducted as 7 percent insurance policy amount or Rs. 10,000 which is less.
- y) A person can deduct pollution control expenses and research and development cost up to maximum limit 50 percent of adjusted taxable income of total business run by him.
- z) Donation can be deducted as a 5 percent of adjusted income Rs. 100000 which is less.
- Za) 7 percent of depreciation base amount of end of the year can be deduct as a repair and maintenance cost and unrelated amount can be capitalized a excess repair and maintenance expenses can be added to depreciation base amount of coming income year (Income Tax Act, 2002).

2.2 Review of Related Studies

There is no long history income tax in Nepal, since 1959/60 income tax was started in Nepal. After its establishment many individuals and institutions have studies in this subject regarding legal aspect administrative problems, historical aspect trend of income tax, income tax system, income tax structure etc. They have made appreciable effects in the field of income tax.

Several books, dissertations, research papers, repeats and articles published in journals and newspapers are reviewed while preparing this thesis. Most of the books are found to be descriptive rather than analytical. Many books, in this fiend are written to fulfill the course requirements of Tribhuvan University. An attempt i.e. made have to review some of books, thesis, research papers, reports and articles which have been written the field of income tax in Nepal.

2.2.1 Review of Thesis

In 1967, Mr. Govinda Lal Shrestha had conducted a research in the topic "Income Tax in Nepal". This research of Mr. Shrestha was mainly centered with the current practice of income tax in Nepal. The time covered by this study was six years from fiscal year 1962/63 to fiscal year 1967/68. Data and other necessary information were by using secondary source. Mr. Shrestha has discussed about income tax act and rules, historical background and administrative aspects of income tax. In his research, Mr. Shrestha has pointed out various recommendations. Some remarkable recommendations of the research were as follows:

- a. Income from agriculture should be taxed.
- b. Exception limit should be determined on the basis of member of family.
- c. Income tax should be made more scientific, systematic and the social economic justifiable.
- d. Expanses related to income from remuneration should be deducted (Shrestha, 1967: 20-23)

In 1977, Mr. Chandra Lal Shrestha had conducted a research in the topic "A Case Study of Income Taxation in Nepal." The time period covered by this thesis was eleven years from fiscal year 1964/65 to fiscal year 1974/75. The data and other necessary information were collected by using secondary sources of data. Mr. Shrestha conducted this research with the objectives of: i) To analyze the importance of income taxation in solving the financial resource problem, ii) To know the role of income taxation in the process of economic development of Nepal, iii) To analysis the present position and problem in the tax structure of Nepal. Mr. Shrestha has emphasized on income tax laws. He has described the provision of income taxation in detail but not studies the contribution of income tax in resource mobilization. Mr. Shrestha, in his study, found that the budgetary figures starting from fiscal year 1951/52 to 1975/76, should that the budget ran into deficit exception in four fiscal years. He also found that low tax paying capacity and tax consciousness of Nepalese people, inefficient tax administration lack of scientific method in computing income tax lack of public information about income tax, lack of linkage between tax

department and other government, offices with which tax payers have transactions are the main reasons of tax evasion in Nepal (Shrestha, 1977: 80-85)

In 1981, Miss. Ropjalin Suwal had conducted a research in the topic "Income tax system in Nepal." Miss Suwal conducted this study with objectives of: i) to show the problems and importance of income tax in solving the financial resource problem in Nepal, ii) to show the state and per capital burden of income tax in Nepal, iii) to show the trend of income tax and economic effect of income tax on production in Nepal.

The time period covered by this study was sixteen years from fiscal year 1965/66 to fiscal year 1980/81. The data and other necessary information were collected by using secondary sources of data. In this study, Miss Suwal has discussed about importance role, effect, trend, historical background and legal aspect of income tax. Her study is a description of income tax system. In her research, Miss Suwal has pointed out various findings and recommendations. Some remarkable findings to the research were as follows:

- a. Income tax is paying less significant role in the tax structure of Nepal.
- b. The potential use of income tax in Nepal requires many reforms.
- c. The method of accounting assessment and collection are very crude and unscientific because of the lack of proper records to taxable individuals and their transaction (Suwal, 1981: 127-135)

In 1987, Mr. Prem Prasad Timilsina had conducted a research in topic "Income tax evasion in Nepal." Mr. Timilsina conducted this study with objectives of, i) to analyze the structure of income tax in Nepal, ii) to examine the income tax evasion tendency in Nepal, iii) to observe the general opinion about income tax evasion in Nepal, iv) to estimate the volume of income tax evasion in Nepal.

The time period covered by this study was 25 years from fiscal year 1962/63 to fiscal year 1986/87. The data other necessary information were collected by using primary as well as secondary sources. This study also followed an analytical as well as descriptive research design. This study is mainly concerned with income tax

evasion in Nepal. Mr. Timilsina, in his study has pointed out various findings and recommendations. Some remarkable findings of research were as follows:

- a. The composition of tax and non-tax revenue is still less satisfactory in Nepal. There were 79.14 percent tax and 20.86 percent non-tax contribution is supposed to be appropriate were in Nepal.
- b. The share of direct tax has been decreasing and indirect tax had been increase in Nepal. The contribution of direct and indirect tax were 55.49 and 45.51 percent during 1963/64, where as it become 18.44 percent and 81.56 percent during 1985/86. It shows that indirect taxes have dominant role in comparison with direct tax in Nepal.
- c. The main reason to least contribution by direct taxation is due to the high practices of tax evasion (Timilsina, 1987: 109-119)

In 1995, Shiva Narayan Shahu had conducted a research in the topic "Contribution of income tax in National revenue of Nepal." This research of Mr. Shahu was mainly focused with the real situation and share of income tax in national revenue of Nepal.

The time period covered by this study was twenty one years from fiscal year 1974/75 to fiscal year 1994/95. The data and other necessary information were collected by using secondary sources of data. The research was design of this study was designed as historical cum descriptive. Mr. Shahu, in this study found that only 0.35 percent of total publication come under the categories of taxpayers during his study period. He also showed the contribution of income tax in the total tax revenue and total revenue was 9.95 percent and 7.94 percent respectively. Income tax had been gradually increasing except fiscal year 1990/91 and 1991/92 during the study period and income tax was in the four the place in the tax structure. The individual tax purpose had high contribution than the wage earners (Shahu,1995: 66-71)

In 2001, Miss Bibha Pradhan had conducted a research in the topic "Contribution of income tax from public enterprise to public revenue of Nepal, with reference to Nepal Telecommunication Corporation." Miss Pradhan conducted this study with objective , i) to analyze the contribution of income tax from public enterprise to government revenue of Nepal, ii) to examine the effectiveness of income

tax revenue collection from public enterprise, iii) to show the contribution of income tax from NTC to total tax and total income tax of Nepal.

The time period covered by this study was ten years from fiscal year 1989/90 to 1998/99. The data and other necessary information were collected by using primary as well as secondary sources of data. Miss Pradhan, in this study has found that income tax was a suitable source of mobilizing internal resources. Contribution of tax from public enterprise in Nepal was not significant during the study period due to poor achievement, weakness in government economic policy and deficiency in legislation. She also found that PEs share has covered more than 50 percent corporate tax. In the earlier stages, PEs contributed almost total share of corporate income tax. In fiscal year 1989/90, the share of income taxes from the PEs 99 percent. But its share decreased to 58 percent in the fiscal year 1998/99.

Miss Pradhan also found that NTC showed 44 percent share of total income tax revenue from PEs, which was 84 percent in 1993/94. Except in the fiscal year 1991/92 and 1996/97, the collection of income tax from NTC has been increasing gradually during the study period (Pradhan, 2001: 096-100).

In 2003, Mr. Rabindar Shakya had conducted a research in topic "A study an income tax collection from commercial banks." Mr. Shakya focused his study to analyze the contribution on of income tax from commercial banks to government total revenue.

The time period covered by this study was six years from fiscal year 1996/97 to 2001/02, the necessary data and other necessary information were collected by using secondary sources of data. Mr. Shakaya, in this study has found that government enterprises have been contributing high corporate taxes than public limited companies and private limited companies. In an average 27-22 percentage has been contributed by the government enterprises. This ratio shows that the development of public limited companies as well s private limited companies is very slow. Total corporate tax has been collected 52.31 percent in an average.

He also found that internal revenue mobilization play vital role in the poor developing counting like ours to develop socio and economic environment of the nation. Income tax is a best and promising instrument of resource mobilization in

Nepal. Sound tax administration and simple tax laws assist in maximizing the tax revenue. Beside the tax education, tax morality also plays important roles in tax revenue collection. The trend of income tax collection is increasing each year except in the fiscal year 2001/02. The tax revenue collection from all sources were low in that year than previous year due to west economic condition, instability of politics and government and lack of peace and securities in the nation. (Shakya, 2003: 91-96)

In 2004, Mr. Yuvaraj Pandey had conducted a research in the topic "Corporate tax planning in Nepal." Mr Pandey conducted this study with objectives, i) to identify the major problems and weakness for corporate tax planning in Nepal, ii) to identify the major facilities and benefits provided by income tax act 2058 for the corporate bodies, iii) to focus on the advantages of tax planning for the both government and corporate taxpayers, iv) to make relevant suggestions and to generate practical ideas of modern income tax system for the corporate taxpayers, v) to encourage reducing tax burden of corporate taxpayers by tax planning rather than tax evasion a tax avoids practices. The area covered by this study was remote undeveloped under developed and developed area. His focus was the facilities provided by tax law and tax rage in different area. For this purpose he used primary as well as secondary sources of data. During the study period, he found that the process of reducing tax liability by the optimum use of facilities provided by the government is suitable. Most of the countries prefer books profit as the tax base as it is superior and stronger based than other tax basis. Government of Nepal has also followed book profit as tax basis for the purpose of computing corporate income tax. (Pandey, 2004: 91-99)

2.2.2 Review of Books

Govinda Ram Agrawal represented the research report entitled "Resource mobilization for development: the return to income tax in Nepal" which was published by (CEDA) Kathmandu in July, 1978. Agrawal contributed towards the new dimension inside Nepalese income taxation. In the research work, he analyzed various aspect of income taxation. In the research work, he analyzed various aspects of income tax system of Nepal such as role of income tax, legal aspect of income tax and administrative aspect of taxation of Nepal. Agrawal, in this books detailed explains about resource mobilization through income tax. His main contribution from this book is concerned to the empirical investigation of facts and the figures about the

income tax in Nepal. He also calculates the responsiveness and various projections for future about income tax. He also showed the causes of problem facing by tax authorities in the tax administrative in his report. As per his study the main cause of administrative problems were under delay in tax assessment, failure to maintain proper account by taxpayers, failure to locate new taxpayers, failure to maintain proper records by the offices, unfriendly behaviour of tax officials to the taxpayers, assessment under the best judgment basis etc.

The other books named "Income tax system in Nepal" written by Narayan Raj Tiwari published in 1999 described the income tax in general. This book consisted the historical background of income tax in Nepal. This book therefore was useful to understand the theoretical aspect of income tax law only because it failed to give the fact about the role and numerical information of income tax in Nepal is an analytical way.

Puspa Raj Kandel also presented the Ph.D. thesis entitled "corporate tax system and investment behaviour in Nepal" in 2000. He under took the research work to find out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of his study were to evaluate the corporate tax system in general, to examine the sensitivity to certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact as tax burden. He showed the relationship of private investments with average effective tax rate (AETR) marginal effective tax rate and tax incentives in Nepal. He found that METR for debt financed project are almost negative (i.e. -1.7%) and positive for equity financed project and debt equity ratio project by 27 percent and 19 percent respectively. He had also found the impact of information to METR. According to him, the statutory tax rate deduction had impact of inflation to investments by 60 percent to 20 percent. In this regard, he had showed the adjusted R² value 0.87 at 5 percent level of significance. He had concluded that the statutory tax rate was in moderate level under all financing options: debt, mix and equity (i.e. it was not much distractive). The relation between inflation rate and effective tax burden in Nepal was negative.

Nagendra Bahadur Pradhananga (1993) wrote a book entitled "income tax law and accounting. " Mr. Pradhananga has described the provisions mode under income tax laws. This book is divided in 20 chapters. In this book, Mr. Pradhananga has

described about income tax and its development in Nepal. Finance act, industrial enterprise act, agricultural income, income from remuneration, income from house and land rent, income from industry, business, profession and vocation. Income from other sources computation of total net income. He has also described about fine, penalties and appeal, contribution of income tax for the development of nation, income tax administration and official, collection and return of income tax and admissible and in admissible expenses etc.

This book has been written to fulfill the course requirement of Tribhuvan University. It is based as the syllables of B.com level. Mr. Pradhananga's book is informative rather than analytical. He also included some numerical problems in regard to income tax assessment. But this book has not analyzed the importance of income tax, problems and defects in Nepalese income tax system. This book is very useful for the students of B.Com. level but it has not analyzed the role of income tax and the major aspects of income tax system.

Surendra Keshar Amatya, Bihari Binod Pokharel and Rewant Kumar Dahal (2004) wrote a book entitled "Taxation in Nepal." Mr. Amatya, Pokharel and Dahal, has described the provisions made under income tax laws. This book is divided in 31 chapters. In their book, Mr. Amatya, Pokharel and Dahal, has described about income tax and its development in Nepal, tax accounting, quantification, allocation and characterization of amounts, exemptions, concession, facilities and tax rates, expenditure expressly disallowed for deduction, capital or revenue incomes and expenditures taxpayer, special provision for natural person and entity, income heads and sources, income from employment, income from business, set-off, long back and carry forward of losses, income from investment, net gain from disposal of assets and liabilities and capital gain taxation, total assessable income, taxable income and tax liability, international taxation, form of documentation, PAN and maintenance of documents, income return and tax assessment, payment, collection and refund of tax, tax administration, rights and duties of taxpayers and other persons, penal provisions, appeal, property tax in Nepal, value added tax in Nepal, right and duties of taxpayers etc.

This book has been written to fulfill the course requirement of Tribhuvan University. It is based on the syllables of Bachelor level of management, law and CA and it is also for master level of management and law. Mr. Amatya, Pokharel and

Dahal's book is informative rather than analytical. They have also included numerical problems in regard to income tax assessment. The student of Bachelor and masters can get assessment system. But this book has not analyzed the importance of income tax, problems and defects in Nepalese income tax system.

Mr. Ishowar Bhattarai and Girija Prasad Koirala (2004) wrote a book entitled "Tax laws and tax planning." Mr. Bhattarai and Koirala have described the provisions made under income tax most related terms in respect with assesment of different income tax and tax planning. This book has been divided into 20 chapters. Mr. Bhattarai and Koirala has also described the concept of income tax, exempt amounts, concessions, tax rates and with holding payments, deduction not allowed, tax accounting and timing, quantification, allocation and characterization of amount, income from business, capital gain tax, income from investment, set-off and carry forward of losses, special provisions for individuals and entities, informational taxation, tax administration, official documentation, record keeping and information collection, returns of income and assessment, collection of tax, remission and refund, administrative appeal and review, penal provisions, value added tax, tax planning and tax planning for various payment sand activities.

This book has been written to fulfill the course requirements of Tribhuvan University. It is based on the syllables of MBS level. Mr. Bhattarai and Koirala's book is informative rather then analytical. They also included some numerical problems in regards of income tax assessment. But this book has not analyzed the importance of income tax, problems and defaults of Nepalese income tax system. This book is useful for the students of MBS second year, but it has not analyzed the role of income tax and major aspects of income tax system.

Kamal Deep Dhahal (2001) wrote a book entitled "Income tax and house and compound tax law and practice." Dhakal has described the various provisions under income tax act 1974. This book is divided into four parts: it has described about tax, income tax in Nepal, house and compound tax and value added tax etc.

This book is also based on BBS and MBS syllabus. It is useful for information but it has not analyzed the role of income tax, income tax structure etc. The provisions have been described with numerical examples but have not been analyzed in critically.

Rup Bahadur Khadka(1974) wrote a book entitled "Nepalese taxation, a path for reform." Khadka dealt with both national and local taxes and tax administration in Nepal. This book traces the path of evaluation of Nepalese tax system. It evaluates the Nepalese tax system on the basis of conventional, theoretical concepts and suggests measures for its improvement. Suggested measures are modest, in order to provide a feasible solution for the near future.

Some books have been written and published on new income tax act 2002 (2058). Income tax law: "then and now, "has been written in Nepali by Biswo Dip Adhikari in 2002 " Nepal ko Aadhunik Aayakar Pranali" has been written in Nepali by Bidhyadhar Mallik in 2003. These books are useful to understand the laws and provisions of new income tax act, 2002. In these books, the respective authors have tried to describe the laws and provision in descriptive manner with example. Numerical examples are given to under stand the treatment of special provisions in tax assessment process. These books have also included the evaluation of income tax system in Nepal.

2.2.3 Review of Reports

In 1976, a research team leaded by Bhawani Dhungana, the research officer of CEDA, has analysed the income tax of Nepal. The report was published by CEDA entitled "The analysis of tax structure in Nepal." The time period covered by this research report was 14 years from fiscal year 1961/62 to 1974/75. The first chapter of the report has dealt with the need for resource mobilization through taxation. It has examined the trend of public expenditure and public revenue from 1961/62 to 1975/76. The report has also declared that contrary to developed economy where tax policy tends to accept the level of expenditure in Nepal heavily depends on the ability of tax system in mobilizing the financial resources. In the fifth chapter of the report, the analysis of income tax of various district are given. The report has also claimed that the administration of income tax has been improving because there has been an increament of tax by 23.5 percent between 1969/70 to 1975/76 and tremendous progress in assessment has been made. Rs 220.4 million has been estimated to be generated from income tax in 1979/80, the projection being based on normal increase of 29 percent per annum (Dhungana, 1976: 1-29 and 66-81).

In 1978, a research team leaded by Govind Ram Agrawal, a senior research officer of CEDA, had conducted a research in the topic "Resource mobilization for

development: the reform of income tax in Nepal." This research report was published by CEDA, Kathmandu, Agrawal and his team had focused this study to analyse the various aspects of income tax in Nepal. The time period covered by this study was twenty-eight years from 1951/52 to 1978/79. Both primary and secondary sources of data were used for the conduct of this study. Some of the important objectives of this study were as follows:

- a. To examine the problem of growing resource gap in Nepalese finances in the context of the role of income tax.
- b. To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- c. To examine new proposal for mobilization of additional domestic resources from income tax in Nepal.
- d. To examine possibilities for making income tax as a policy instrument for reducing inequalities of income and wealth in Nepal.
- e. To examine the ways and means for increasing tax consciousness in the Nepalese public.

Mr. Agrawal and his team, in this study, have pointed out various findings and recommendations. Some remarkable findings and recommendations of the research were as follows.

- a. Needs for additional resource mobilization was growing by 85 times in Nepal and this was experiencing serious and growing problem of resource gap.
- b. Income tax administration in Nepal suffered from a number of interacting and inter-related problems, which have badly affected its productivity.
- c. Income tax has been a fast growing category of tax revenue in Nepal.
- d. More than 50 percent of total income tax revenue was contributed by the individual taxpayers.
- e. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01. Since both buoyancy and elasticity were greater than unity, income tax in Nepal was positively responsive to change in GDP.

- f. The main defects of the income tax administration was failure to locate new taxpayers, to maintain the proper accounts, delay in assessment, poor taxpayer compliance, evasion and avoidance of tax, and defective management.

In 1995, tax system review task force submitted a report entitled "Review of Task System." This report was prepared by Madam Kumari Dahal et al. for MOF, HMG/N. This report covered the various aspects of tax system at that time. Narrow tax base, low tax elasticity, higher burden of indirect tax to directs of taxation identified by this report. This study identified the narrow tax base. The exemption of income from agricultural sector, which contributed 43 percent of GDP, was marked as main reason of narrow base. Including agricultural sector, income from domestic industries, mines, construction, trade, hotel and restaurant which contributed 48 percent income to GDP were under income tax. All these provision made the tax base very narrow. The tax rates were unnecessary high. Only 73,000 taxpayer's income was demarked which was less than 1 percent of the economically active population. Real per capital income growth rate at that time was only 0.3 percent, which showed the low taxable capacity of the people. This report suggested increasing the tax to GDP ratio from 10 percent to 15 percent, to increase the total number of taxpayers and to increase the per capita income.

This study further suggested about 40 percent extra resource mobilizations if proposed tax policy and program were in place. This study recommended various practical ideas to widen income tax base like 20 percent exemption from total tax assessment might be given to make self-tax assessment effective. It suggested raising the exemption limit of income tax for a person to Rs. 3,000 and for family to Rs. 50,000 and exemption should be based on inflation rate.

In 2001, revenue consolation committee had studies the overall taxation situation in depth. This report suggested widening the income tax base by including all kinds of taxpayers and income and find out the taxpayers of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. This report recommended for written communication between taxpayers and tax administration rather than the informal relation. This report suggested to implement account base VAT more effectively. For small taxpayers having to Rs. 2 million, tax collection should be based on sale and purchase description of there. For income taxation, self-assessment was fully recommended.

This report suggested bringing all potential taxpayers into the tax net to widen the tax coverage including agriculture, electricity and other sectors. To increase voluntary compliance, this report highly emphasized to simplify the tax policy. Income tax exemption limit was suggested to increase taking into consideration of purchasing power and inflation. The report also certified Rs. 55,000 for individual and Rs. 75,000 for couple and family as exemption limit. The report gave suggestion for HMG to expand the permanent account number (PAN) outside the valley and reduce the land house registration rate and to rationalize the tax deduction at source (TDS).

2.2.4 Review of Articles

Govinda Bahadur Thapa (2001) wrote an article entitled "Practical issues in income taxation" in Rajeswa. Thapa has focused that income tax is an important source of revenue of the modern government. This tax is not only for revenue but also for attaining equity. However, being a direct tax on incomes and profit, these are several practical issues to be settled before it becomes revenue productive as well as equity achiever. Defining taxable income and tax paying units, determining appropriate rate structure and methods of tax assessment are some of such issues, which are instrumental to make the income tax system effective. This article also analysis and explains the theoretical basis to settle these issues (Thapa, 2001: 20-30).

Puspa Kandel (2001) wrote an article entitled "Draft of income tax act 2001 critical analysis" in Rajeswa. Kandel has criticized the income tax act 2002 on several grounds. Exemption of agricultural income from income tax, export duties levied on export, inequality between different capitals earned income (i.e. tax on interest, dividend and capital gain), withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issues he raised in his article. He also said criticized tax regime creates more tax burden than the former one. He further criticized the act for the provision of income tax from export as 0.5 percent of total export because it is not a good choice of income base (Kandel, 2001: 65-73).

2.3 Research Gap

There is the gap between this research and previous researches. 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 tax administration. They have not reasonably shown the inefficiency of tax administration. They have identified the

problem of income tax evasion at high level and suggested for its control. The findings of the previous researches 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.

Public enterprises are the backbone of the economy. Contribution of income tax from PEs plays vital role in the economy of poor country like Nepal. Most of the previous researcher did not study contribution of income tax from PEs.

Besides these, contribution of income tax from PEs to government revenue has also been studied analytically. Likewise, problems of revenue collection from income tax have also been studied analytically.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methodology describes and process applied in the entire aspect of the study. This chapter described design, population and sample, sampling procedure, nature and sources of data, data collection procedure, data processing procedure, analysis tools and weight of choice.

3.1 Research Design

It is an overall framework of plan study for the collection and analysis of data. This research attempts to analyze the secondary data. Hence, descriptive and analytical both the research design have been used to analyze the contribution pattern of income tax from public enterprises in Nepal.

3.2 Populations and Sample

The present public enterprises are the population of the study. Similarly, income tax of 15 years, beginning from fiscal year 1992/93 to 2006/07 is selected as samples for the purpose of the research.

3.3 Nature and Source of Data

Most of the data were collected from secondary sources. The major sources of data as follows:

- a. The secondary sources of data were the information receives from boos, journals newspapers, report and thesis etc. The major sources of secondary data were as follows:
 -) Economic Survey and Budget speeches of Ministry of finance.
 -) Reports and records of Inland Revenue Department, Ministry of Finance.
 -) Thesis and Dissertation reports related to income tax available at Central Library, Tribhuvan University.
 -) Rajaswa, Revenue Administration Tanning Center, Kathmandu.
 -) Books related to income tax and public finance.

-) National newspapers, journals, souvenirs and magazines.
-) Other relevant rescores related to this study.

3.4 Data Collection Procedures

The study is mainly based on secondary data, obtained from various sources mentioned above.

3.5 Data Analysis Procedure

It is observed that the collected data does not depict the result itself. To draw the required conclusion from collected data are classified, tabulated and analyzed in descriptive and analytical way.

3.6 Use of Tools for analysis

The different tools are required for the analysis. These tools and techniques depended upon the nature of study.

- i. Tabulation
- ii. Simple Average
- iii. Percentage
- iv. Simple Bar Diagram

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Structure of Tax

4.1.1 Structure of Nepalese Government Revenue

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

Nepal has been collecting its revenue from different sources. The structure of government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, land revenue and others. A direct tax includes income tax, property, tax, excise, VAT and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities. The government revenue is therefore, the mix of tax revenue and non-tax revenue consisting various sources. Mostly, income of the government is custom duty, excise duty and sales tax or VAT of indirect group. Custom duties consists of export, import Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial production. The other indirect tax, which are also important in government revenue, are contract tax, hotels tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals and organizations income or profit. Income tax is the composition of income or profit of public enterprises, semi public enterprises, private corporate bodies, individuals and remuneration. The house and land registration is also the post of direct tax.

Non-tax revenue of the government includes various registration fee, income from sale of government services and products, dividend received, royalties, principal and interest received and miscellaneous. The registration license registration and so on. Water charge, electricity charge, telephone charge, post services, income from

education, income from food, agriculture and income from transportation are the major factors of sales of government services and products. Government received dividend from financial institutions, trading companies, industrial enterprises and service oriented organizations, similarly royalty from mine is also the non-tax revenue of the government.

Table 4.1.1
Composition of Government Revenue in Nepal by Head

(Rs. In Million)

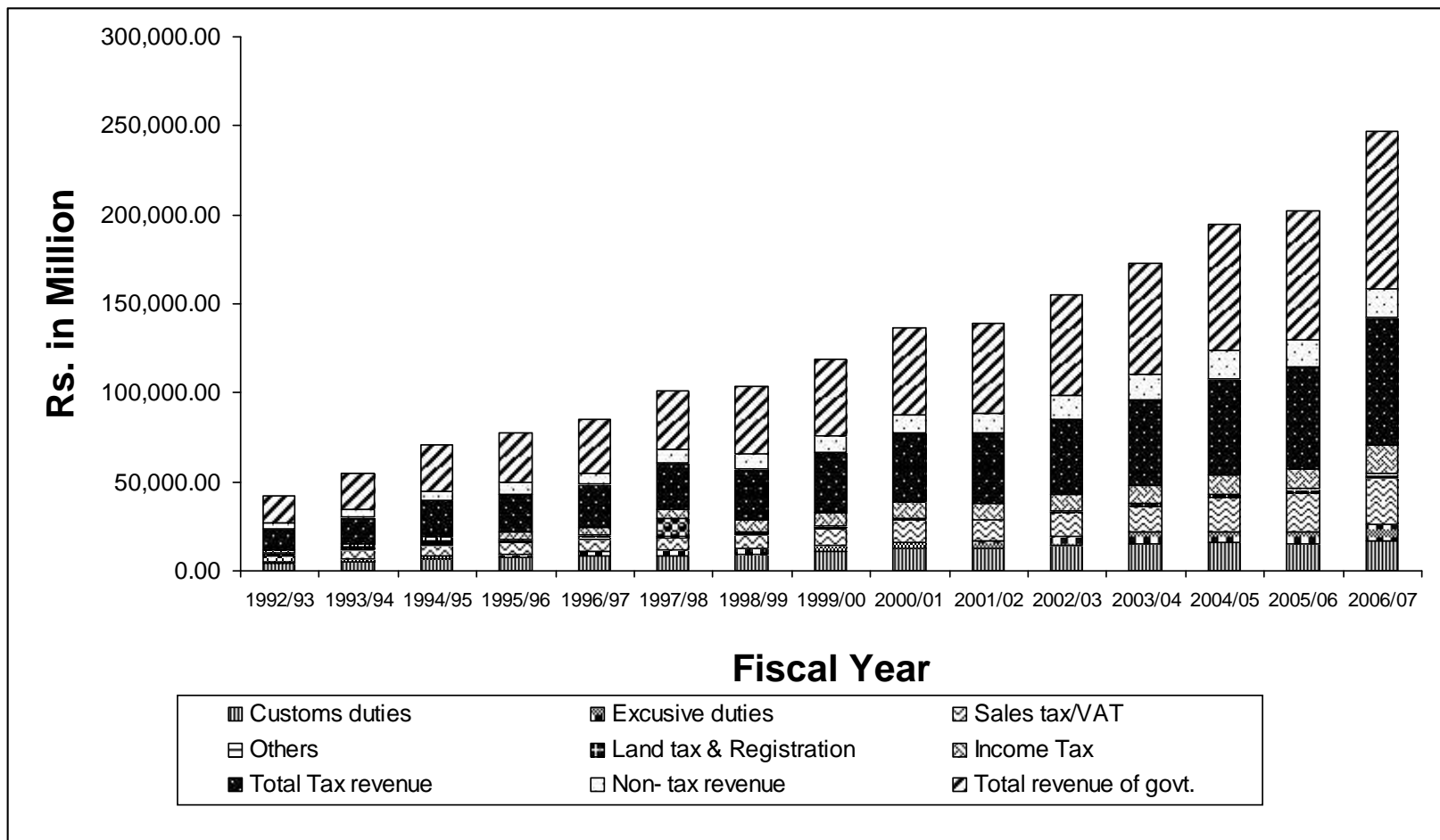
Revenue head/ fiscal year	Customs duties	Excusive duties	Sales tax/VAT	Others	Land tax & Registration	Income Tax	Total Tax revenue	Non- tax revenue	Total revenue of govt.
1992/93	3,945.00	1,452.80	3,438.20	790.30	754.90	1,281.30	11,662.50	3,485.90	15,148.40
1993/94	5,255.00	1,592.50	4,693.10	975.60	833.20	2,022.10	15,371.50	4,209.40	19,580.90
1994/95	7,018.10	1,657.30	6,031.70	1,103.60	937.70	2,911.60	19,660.00	4,945.10	26,405.10
1995/96	7,327.40	1,944.30	6,431.30	1,309.10	1,066.60	3,589.30	21,668.00	6,225.10	27,893.10
1996/97	8,309.10	2,296.10	7,126.50	1,350.60	1,015.40	4,324.60	24,424.30	5,949.20	30,373.50
1997/98	8,502.20	2,885.80	7,122.60	1,241.30	10,004.20	5,183.70	25,939.80	6,998.10	32,937.90
1998/99	9,517.70	2,953.20	7,882.20	883.70	1,003.10	6,513.00	28,752.90	8,498.10	37,251.00
1999/00	10,813.30	3,127.60	9,854.90	334.60	1,015.90	7,935.60	33,152.21	9,741.60	42,893.80
2000/01	12,552.10	3,771.20	12,047.80	303.30	612.90	9,546.50	38,865.00	10,028.60	48,893.60
2001/02	12,638.70	3,807.00	11,964.00	-	113.18	9,465.70	39,330.60	11,114.90	50,445.50
2002/03	14,236.40	4,765.10	13,459.70	1.00	1,414.30	8,691.40	42,586.90	13,642.90	56,229.80
2003/04	15,554.80	6,226.70	14,478.90	268.60	1,697.50	9,946.50	48,173.00	14,158.00	62,331.00
2004/05	15,701.60	6,445.90	18,885.40	306.70	1,799.20	10,965.90	54,104.70	16,018.00	70,122.70
2005/06	15,344.00	6,507.60	21,610.70	565.70	2,181.10	11,221.30	57,430.40	14,851.60	72,282.00
2006/07	16,708.00	9,343.20	26,095.60	697.80	2,253.50	16,028.90	71,127.00	16,590.00	87,717.00

Source: Quarterly Economic Bulletin (Various Fiscal Years) NRB Economic Survey (MOF)

Table 4.1.1 shows the composition of Government revenue in Nepal by head. During the study period, the contribution of tax revenue increased from Rs. 15148.40 million rupees in 1992/93 to Rs. 87717 million in 2006/07, which was increasing at a slower rate. The contribution of indirect tax is more than direct taxes during the study period. It was about three folds more than indirect tax. The contribution of custom duty has occupied the highest position. The contribution from custom to government revenue is Rs. 3945 in 1992/93 to Rs. 16,708 million in 2006/07. This analysis of data also present in Bar Diagram.

Figure 4.1.1

Composition of Government Revenue in Nepal by Head



4.1.2 Tax and Non-tax Revenue in Nepal

When the government of Nepal presented first budget in 1951/52, the revenue structure was typically that of traditional economy with 73 percent of government receipts coming from non-tax sources and rest 27 percent tax sources. Out of 73 percent, the share of non-tax revenue was 43 percent.

Table 4.2 shows that the composition of Nepal's total revenue which constituted tax and non-tax revenue from fiscal year 1992/93 to 2006/07. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax revenue for the period 1992/93 to 2006/07 was 78.30 percent and average share of non-tax revenue was 21.70 percent. This indicates that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. Tax revenue has been placed as a major source of government in Nepal.

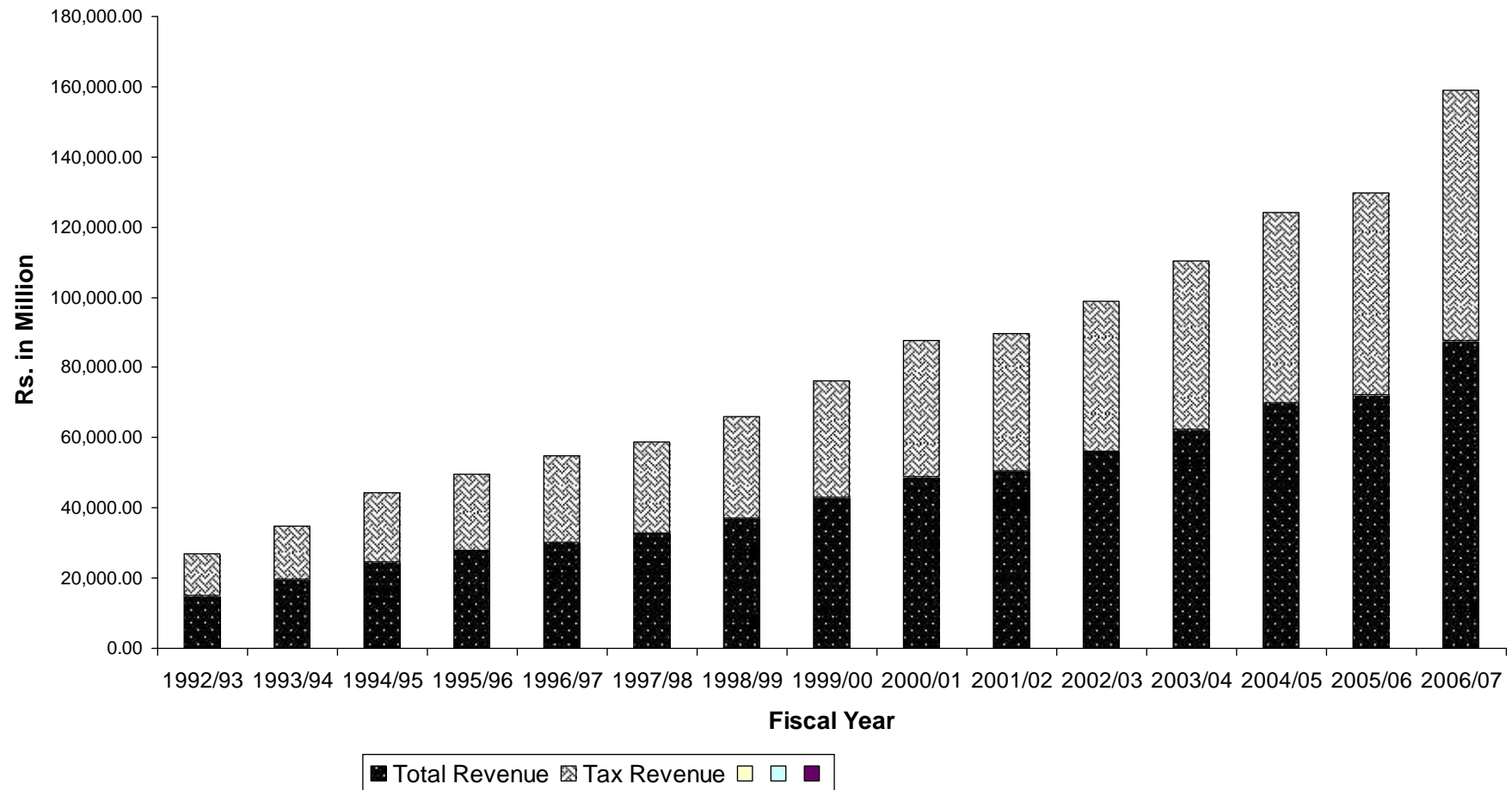
From the year 1992/93 to 2006/07 the amount of tax revenue found increasing every year with the amount of Rs. 11662.50 million to Rs. 71,127 million. But, the figure in percentage of tax revenue in the total government revenue has been found fluctuating in different years. This analysis of data also present in Bar Diagram.

Table 4.1.2**Contribution of Tax and Non-tax Revenue in Total Revenue of Nepal from Fiscal Year 1992/93 to 2006/07****(Rs. In Million)**

Fiscal Year	Total Revenue	Tax Revenue	Tax revenue as % of total revenue	Non-tax revenue	Non-tax revenue as % of total revenue
1992/93	15,148.40	11,662.50	77.00	3,485.90	23.00
1993/94	19,580.90	15,371.50	78.50	4,209.40	21.50
1994/95	24,605.10	19,660.00	79.90	4,945.10	20.10
1995/96	27,893.10	21,668.00	77.68	6,225.10	22.32
1996/97	30,373.50	24,424.30	80.41	5,949.20	19.59
1997/98	32,937.90	25,939.60	78.75	6,998.10	21.25
1998/99	37,251.00	28,752.90	77.19	8,498.10	22.81
1999/00	42,893.80	33,152.20	77.29	9,741.60	22.71
2000/01	48,893.60	38,865.00	79.49	10,028.60	20.51
2001/02	50,445.50	39,330.60	77.97	11,114.90	22.03
2002/03	56,229.80	42,586.90	75.74	13,642.90	24.26
2003/04	62,331.00	48,173.00	77.29	14,158.00	22.71
2004/05	70,122.70	54,104.70	77.16	16,018.00	22.84
2005/06	72,282.00	57,430.40	79.00	14,851.60	21.00
2006/07	87,717.00	71,127.00	81.09	16,590.00	18.91

Source: Economic Survey of Various Fiscal Year, MOF, Nepal

Figure 4.1.2
Contribution of Tax & Non-Tax Revenue of Nepal from the FY 1992/93 to 2006/07



The trend of non-tax revenue collection was also increased during the study period (fiscal year 1992/93 to 2006/07) as it increased from Rs. 3485.90 million to Rs. 16590 million. On the fiscal year 1992/93 to 2006/07 the amount increased from Rs. 3485.90 million to Rs. 6225.10 million. But, the amount decreased in 1997/98 and come down to Rs. 5949.20 million.

Again, from 1996/97 to 2004/05 the non-tax revenue was increased from Rs. 5949.20 million to Rs. 16018 million. The percentage contribution of non-tax revenue total revenue was in fluctuating trend during the study period. It was 23 percent in fiscal year 1992/93. Figure 4.1 shows the trend of tax and non-tax revenue.

4.1.3 Composition of Direct and Indirect Tax Revenue in Nepalese Tax Revenue

The structure of Nepali tax revenue is presented in table 4.3 in terms of direct tax revenue and indirect tax revenue from fiscal year 1992/93 to 2006/07. From the table no. 4.3, it is clear that the whole Nepal tax structure is dominated by indirect tax revenue. The average share of direct tax revenue in total tax revenue for the period 1992/93 to 2006/07 was 23.51 percent and the share indirect tax revenue was 76.49 percent.

The volume of direct and indirect tax was Rs. 236.20 million and Rs. 9626.30 million that is 17.46 percent and 82.54 percent to total tax revenue respectively in the fiscal year 1992/93. The amount of direct tax revenue tax increasing every year as it increase from Rs. 2036.20 in 1992/93 and Rs. 18980.50 million in 2006/07.

The amount of indirect tax revenue was also increasing trend. It increased from Rs. 9626.30 million in 1992/93 to Rs. 52147 million in 2006/07.

Comparison of direct and indirect tax revenue the heavy reliance of economy on indirect taxation. To divert the economy in the channel of development, it is necessary to increase the share of direct tax. Ultimately, decreasing the share of indirect tax. Therefore, the attention should be focused as the sufficient resource mobilization through direct taxation. This analysis of data also present in Bar Diagram.

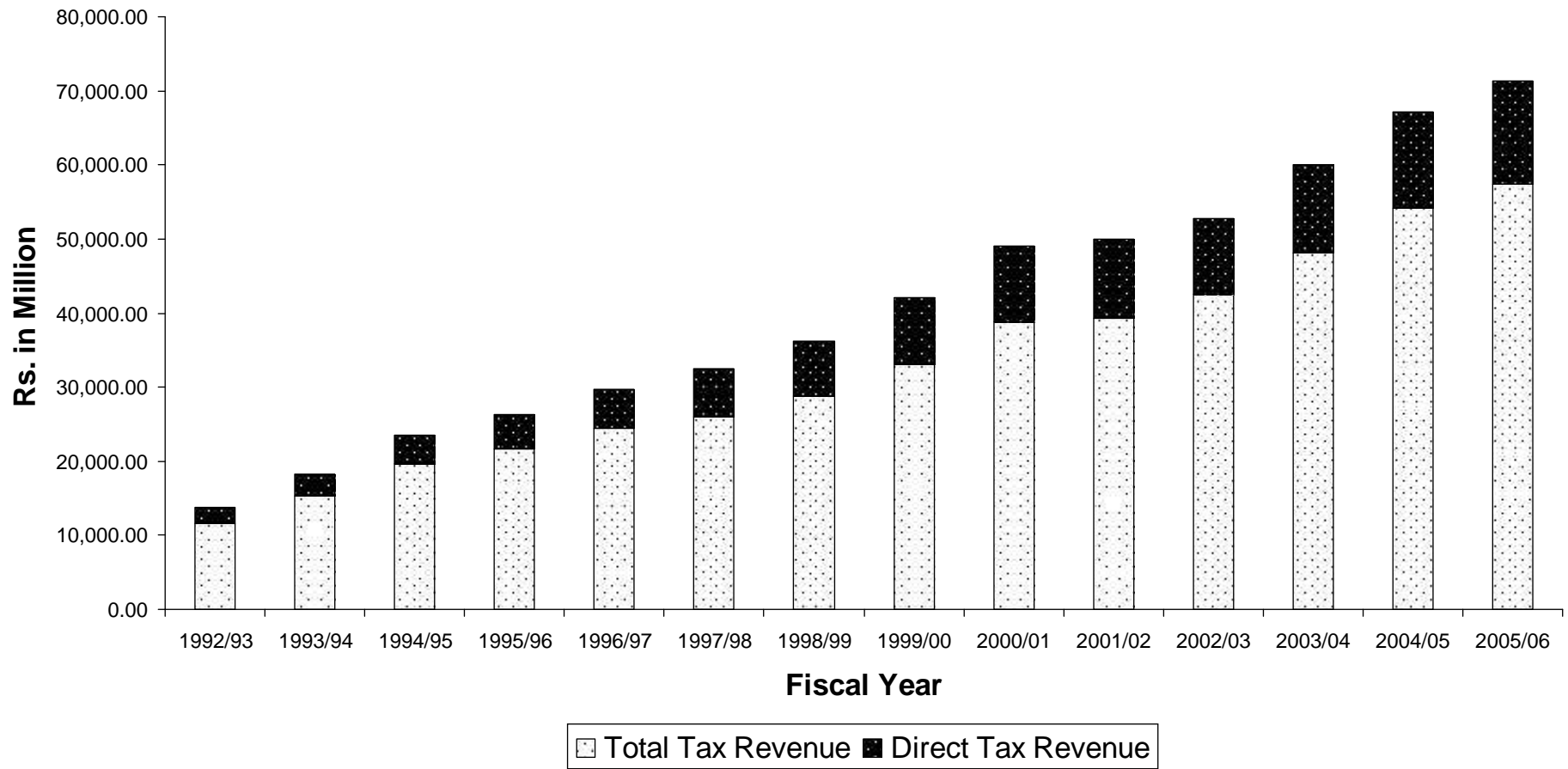
Table 4.1.3
Contribution of Direct and Indirect Tax to Total Tax Revenue from
Fiscal Year 1992/93 to 2006/07

(Rs. in Million)

Fiscal Year	Total Tax Revenue	Direct Tax Revenue	% of direct tax in total tax revenue	Indirect tax Revenue	% of indirect tax in total tax revenue
1992/93	11,662.50	2,036.20	17.46	9,626.30	82.54
1993/94	15,371.50	2,855.30	18.58	12,516.20	81.42
1994/95	19,660.00	3,849.30	19.58	15,810.70	80.42
1995/96	21,668.00	4,655.90	21.49	1,712.10	78.51
1996/97	24,424.30	5,340.00	21.86	19,084.30	78.14
1997/98	25,939.80	6,487.90	23.85	19,751.90	76.15
1998/99	28,752.90	7,516.10	26.14	21,236.80	73.86
1999/00	33,152.20	8,950.50	27.00	24,200.70	73.00
2000/01	38,865.00	10,159.40	26.14	28,705.60	73.86
2001/02	39,330.60	10,597.50	26.94	28,733.10	73.06
2002/03	42,586.90	10,105.71	23.73	32,481.20	76.27
2003/04	48,173.00	11,912.60	24.73	36,260.40	75.27
2004/05	54,104.70	13,071.80	24.16	41,032.90	75.84
2005/06	57,430.40	13,968.10	24.32	43,462.30	75.68
2006/07	71,127.50	18,980.50	26.69	52,147.00	73.31

: Economic Survey of Various Years, Nepal

Figure 4.1.3
Contribution of Direct & Indirect Tax from FY 1992/93 to 2006/07



4.1.4 Composition of Direct Tax

Table 4.4 shows that the composition of direct tax from fiscal year 1992/93 to fiscal year 2006/07. In Nepalese tax structure, the major components of direct taxes are income tax, land revenue, house and land registration. The contribution of income tax has become larger than the other component of direct tax.

The contribution of income tax to direct tax revenue was 58.84 percent in 1992/93. It increased slowly and reached to 79.21 percent in 2006/07. Its percentage contribution was maximum 89.71 percent in 2000/01 and minimum 58.84 percent in 1992/93.

Contribution of land revenue of direct tax revenue was 3.41 percent in the year 1992/93, it started to decrease and reached to zero percent in year 2002/03. Its contribution was maximum 3.11 percent in 1992/93 and was minimum in zero percent from 2002/03.

Contribution of house and land registration tax to direct tax revenue is in fluctuating trend during the period of 15 years from 1992/93 to 2006/07. Its contribution was 32.68 percent in 1992/93. After than, it started too decreased and reached to 11.87 percent in the year 2006/07. Figure 4.4 shows the components of direct tax. This analysis of data also present in Bar Diagram.

Table 4.1.4
Component of Direct Tax and their percentage share from Fiscal Year 1992/93 to 2006/07

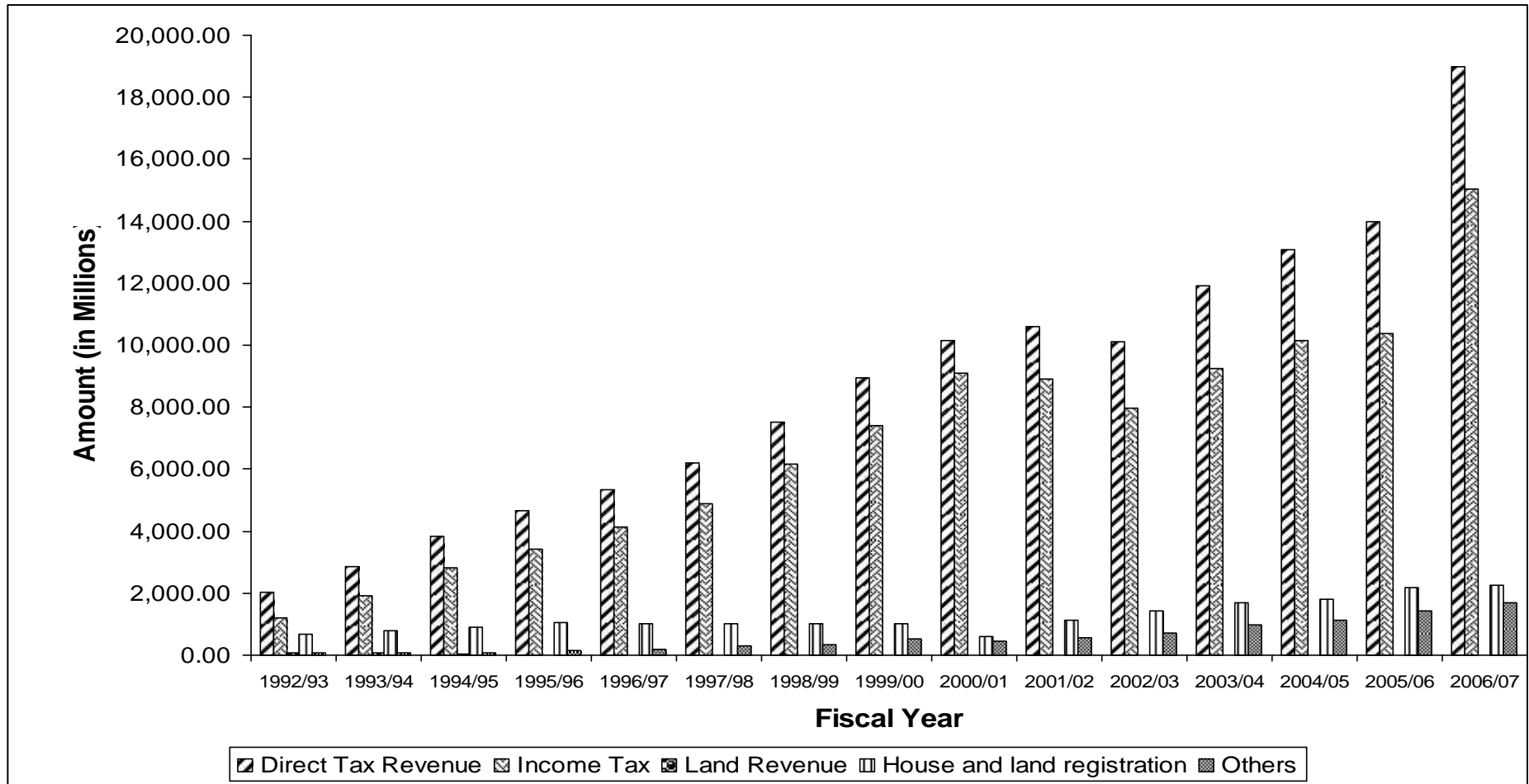
(Rs. In Million)

Fiscal Year	Direct Tax Revenue	Total %	Income Tax	% of direct tax	Land Revenue	% of direct Tax	House and land registration	% of direct tax	Others	% of direct tax
1992/93	2,036.20	100.00	1,198.20	58.84	69.40	3.41	665.50	32.68	83.10	4.08
1993/94	2,855.30	100.00	1,929.60	67.58	61.10	2.14	772.20	27.04	92.51	3.24
1994/95	3,849.30	100.00	2,823.40	73.35	34.90	0.91	902.80	23.45	88.20	2.29
1995/96	4,655.90	100.00	3,431.10	73.70	18.20	0.39	1,048.40	22.52	157.90	3.39
1996/97	5,340.00	100.00	4,123.40	77.22	5.90	0.11	1,009.50	18.90	201.20	3.77
1997/98	6,187.90	100.00	4,896.10	79.15	3.60	0.06	1,000.60	16.17	285.60	4.62
1998/99	7,516.10	100.00	6,170.20	82.09	1.30	0.02	1,001.80	13.33	342.70	4.56
1999/00	8,951.50	100.00	7,420.70	82.90	4.60	0.05	1,011.30	11.30	515.00	5.75
2000/01	10,159.40	100.00	9,114.00	89.71	5.10	0.05	607.80	5.98	432.50	4.26
2001/02	10,597.50	100.00	8,903.70	84.02	0.80	0.01	1,131.10	10.67	562.00	5.30
2002/03	10,105.70	100.00	7,966.20	78.83	-	-	1,414.30	14.00	725.30	7.18
2003/04	11,912.60	100.00	9,245.90	77.61	-	-	1,697.50	14.25	969.20	8.14
2004/05	13,071.80	100.00	10,159.40	77.72	-	-	1,799.20	13.76	1,113.20	8.52
2005/06	13,968.10	100.00	10,373.70	74.27	-	-	2,181.10	15.61	1,413.30	10.12
2006/07	18,980.50	100.00	15,034.20	79.21	-	-	2,253.50	11.87	1,692.80	8.92

Source: Economic Survey of Various Years, Nepal

Figure 4.1.4

Component of Direct Tax and their percentage share from Fiscal Year 1992/93 to 2006/07



4.1.5 Composition of Indirect Tax

Table 4.5 shows that the composition of indirect tax from fiscal year 1992/93 to 2006/07. The whole Nepalese tax structure is dominated by indirect tax revenue. Indirect tax includes sales tax, VAT, customs, excise duty, entertainment tax, hotel tax, air flight tax, contract tax. Nepalese tax revenue is dependent mainly on taxes. International trade and sales tax as goods as service supplemented by taxes in income and proper to sour extent. Nepalese tax structure is heavily dependent as indirect taxes, which contributed 73.31 percent total revenue in 2006/07.

The contribution of custom duties in indirect tax decreasing from 40.98 percent to 32.04 percent from the year 1992/93 to 2006/07. The average contribution of custom duties to indirect tax was 41.76 percent during the study period.

Excise duty is levied only on the domestically manufactured goods and the imported goods kept outside the excise in the recent year. Its contribution to indirect tax had mainly increased from 15.09 percent in 1992/93 to 17.92 percent in 2006/07.

The sales tax/VAT has become and major sources of overall tax revenue with increasing trend, which contributed about 35.72 percent to the indirect tax in 1992/93 compared to 50.04 percent in 2006/07.

The contributing of contract tax in indirect tax decreased from 3.05 percent in the year 2006/07 to zero percent in 2002/03. The contribution of other indirect tax to total indirect tax is fluctuating during the study period of 15 years. In 1992/93, the percentage contribution of other indirect tax in total indirect tax was 5.16 percent. Then, it started to decreased and reached to zero percent. Figure 4.5 shows the composition of indirect tax. This analysis of data also present in Bar Diagram.

Table 4.1.5
Major Sources of Indirect tax and their relative percentages to indirect tax from Fiscal Year 1992/93 to 2006/07

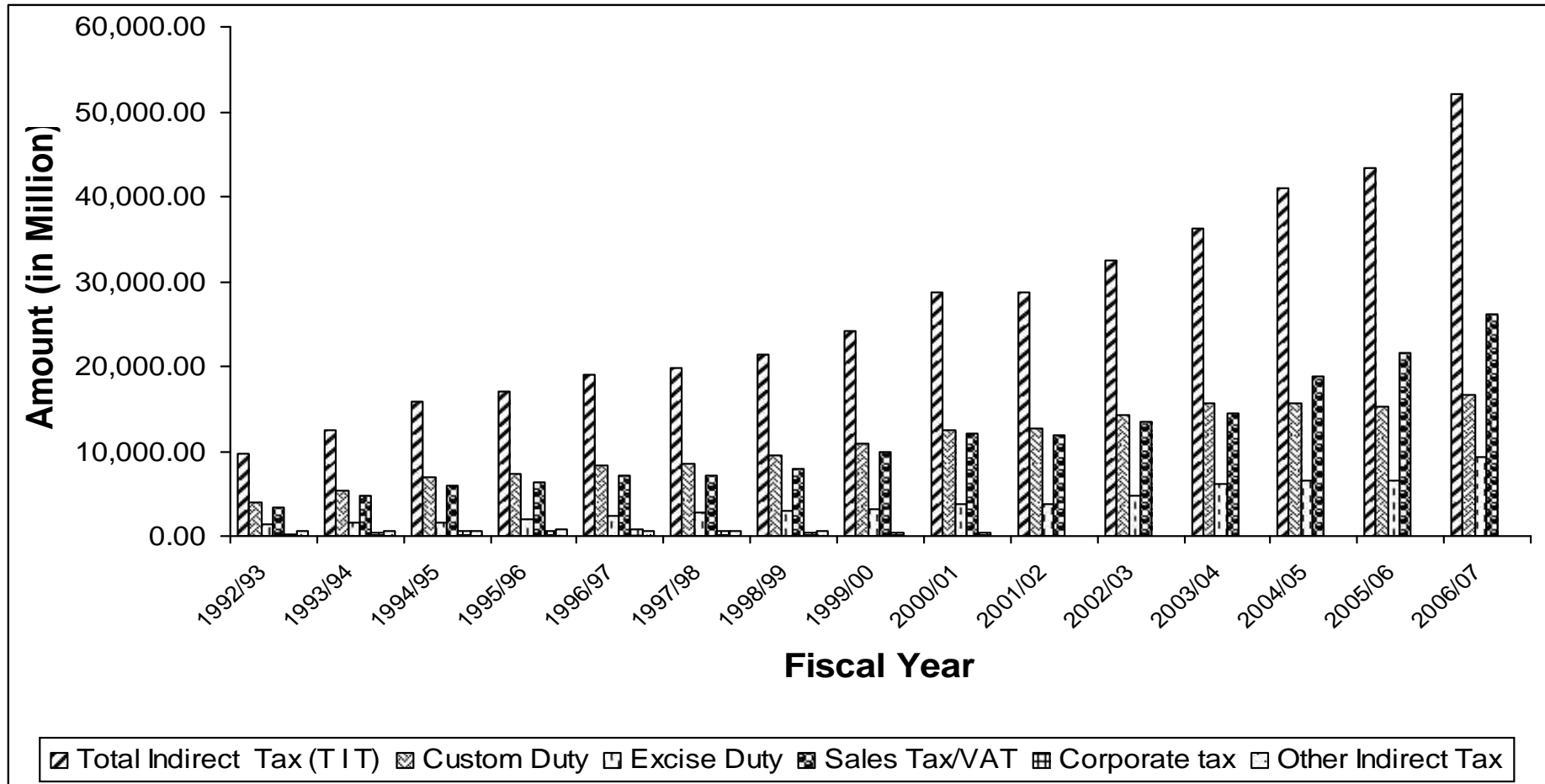
(Rs. in Million)

Fiscal Year	Total Indirect Tax (T I T)	Total %	Custom Duty	% of T I T	Excise Duty	% of T I T	Sales Tax/VAT	As % of T I T	Corporate tax	% of TIT	Other Indirect Tax	% of T I T
1992/93	9,626.30	100.00	3,945.00	40.98	1,452.80	15.09	3,438.20	35.72	293.30	3.05	497.00	5.16
1993/94	12,516.20	100.00	5,255.00	41.99	1,592.50	12.72	4,693.10	37.50	356.50	2.85	619.10	4.95
1994/95	15,810.70	100.00	7,011.00	44.34	1,657.30	10.48	6,031.70	38.15	505.20	3.20	598.40	3.78
1995/96	17,012.10	100.00	7,327.40	43.07	1,944.30	11.43	6,431.30	37.80	613.40	3.61	695.70	4.09
1996/97	19,084.30	100.00	8,309.10	43.54	2,298.10	12.04	7,126.50	37.34	761.50	3.99	589.10	3.09
1997/98	19,751.90	100.00	8,502.20	43.04	2,865.80	14.51	7,122.60	36.06	618.00	3.13	623.30	3.16
1998/99	21,326.80	100.00	9,517.70	44.63	2,953.20	13.85	7,882.20	36.96	374.50	1.76	509.20	2.39
1999/00	24,200.70	100.00	10,813.30	44.68	3,127.60	12.92	9,854.90	40.72	304.00	1.26	30.06	0.12
2000/01	28,705.60	100.00	12,552.10	43.73	3,771.20	13.14	12,047.80	41.97	301.20	1.05	2.10	0.01
2001/02	28,733.10	100.00	12,658.70	44.06	3,807.00	13.25	11,964.00	41.64	-	-	-	-
2002/03	32,481.20	100.00	14,236.40	43.83	4,785.10	14.73	13,459.70	41.44	-	-	1.00	0.00
2003/04	36,260.40	100.00	15,554.80	42.90	6,226.70	17.17	14,478.90	39.93	-	-	-	-
2004/05	41,032.90	100.00	15,701.60	38.27	6,445.90	15.71	18,885.40	46.03	-	-	-	-
2005/06	43,462.30	100.00	15,344.00	35.30	6,507.60	14.97	21,610.70	49.72	-	-	-	-
2006/07	52,147.00	100.00	16,708.00	32.04	9,343.20	17.92	26,095.60	50.04	-	-	-	-

Source: Economic Survey of Various Years, Nepal

Figure 4.1.5

Major Sources of Indirect tax and their relative percentages to indirect tax from Fiscal Year 1992/93 to 2006/07



4.1.6 Structure of Income Tax in Nepal

The income tax structure of Nepal is the composition of tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Here public enterprise consists of 100 percent government ownership, semi-public enterprises includes 51 percent government ownership. Private corporate bodies mean public limited companies. Individuals denote sale trades, partnership, private limited companies. Remuneration refers to salaries earned from government and non-government sectors.

Table 4.6 presents the structure of income tax in Nepal which shows total income tax in every fiscal year 2001/02 and 2002/03. It was increased from Rs. 1198.20 millions in year 1992/93 to s. 15034.20 millions in the year 2006/07. In the year 2001/02, it was decreased to Rs. 8903.70 from Rs. 7141 millions in 2001/02. Again it decreased to Rs. 7966.20 millions in 2002/03. Then after that it started to increases and reached to Rs. 15034.20 millions in 2006/07.

The contribution of public enterprises also increased from Rs. 255.30 millions to 2928 millions in fiscal year 1992/93 to 2000/01. In the year 2001/02 it was Rs. 1769.30 millions of income tax from public enterprises to total income tax revenue was fluctuating.

Contribution of income tax from private corporate bodies to total income tax revenue was very low in the fiscal year 1992/93 but it started to increase regularly up to fiscal year 2000/01 reached to Rs. 1924.30 million which was 21.11 percentage of total income tax collection of that year. In fiscal year 2001/02 it was decreased continuously and reached t Rs. 1336 million but from fiscal year 2003/04 it started to increase and reached to Rs. 5717.10 million in 2006/07 as holding 38.03 percentage of total income tax contributor sector.

The contribution of remuneration was Rs. 56.70 million with 4.73 percentage in total income tax collection in fiscal year 1992/93 which increased to Rs. 2007.9 million with 13.35 percentage in 2006/07.

The contribution of taxation on interest was Rs. 73.40 with 6.13 percentage in 1992/93 which was increased and reached to Rs. 1054.90 million in 2006/07 with slight increase in percentage with holding 7.02 percentage in total income tax collection. Figure 4.6 shows the composition of structure of Income tax in Nepal. This analysis of data also present in Bar Diagram.

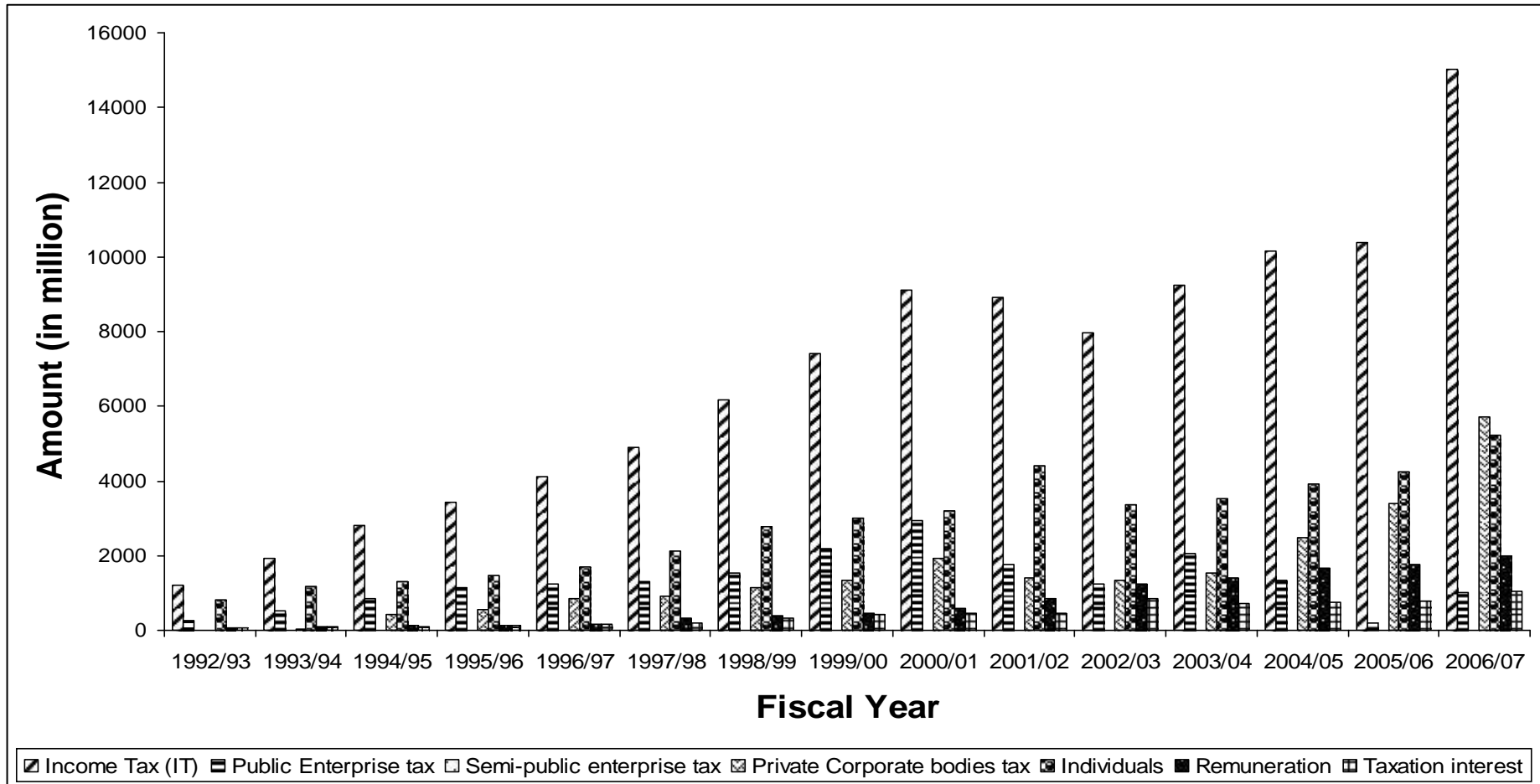
Table 4.1.6
Structure of Income Tax in Nepal from fiscal Year 1992/93 to 2006/07

(Rs. in million)

Fiscal Year	Income Tax (IT)	Percent	Public Enterprise tax	As % of income tax	Semi-public enterprise tax	% of IT	Private Corporate bodies tax	As % of income tax	Individuals	As % of income tax	Remuneration	As % of income tax	Taxation interest	As % of Income tax
1992/93	1198.2	100.00	255.30	21.31	2.6	0.22	9.5	0.79	800.7	66.83	56.7	4.73	73.4	6.13
1993/94	1921.2	100.00	534.10	27.80	2.1	0.11	19.7	1.03	1184.8	61.67	83.8	4.36	96.7	5.03
1994/95	2823.4	100.00	860.20	30.47	-	-	440.1	15.59	1293.1	45.80	118.4	4.19	111.6	3.95
1995/96	3431.4	100.00	1,144.50	33.35	-	-	563.9	16.43	1470.1	42.84	133.1	3.88	119.8	3.49
1996/97	4123.4	100.00	1,231.10	29.86	-	-	858.4	20.82	1711.4	41.50	168.1	4.08	154.4	3.74
1997/98	4898.1	100.00	1,317.80	26.90	-	-	925.1	18.89	2120.8	43.30	322.2	6.58	212.2	4.33
1998/99	6170.2	100.00	1,526.50	24.74	-	-	1155	18.72	2772.7	44.94	396.5	6.43	319.5	5.18
1999/00	7420.7	100.00	2,198.80	29.63	-	-	1339.5	18.05	3016.4	40.65	451.5	6.08	414.4	5.58
2000/01	9114	100.00	2,928.00	32.13	-	-	1924.3	21.11	3200.5	35.12	597.3	6.55	463.9	5.09
2001/02	8903.7	100.00	1,769.30	19.87	-	-	1412	15.86	4412.1	49.63	835.6	9.38	467.7	5.25
2002/03	7966.2	101.25	1,251.00	15.70	-	-	1336	16.77	3362.3	42.21	1252.6	15.72	864	10.85
2003/04	9245.9	100.00	2,056.60	22.24	-	-	1531.3	16.56	3533.4	38.22	1391.2	15.05	733.4	7.93
2004/05	10159.4	100.00	1,332.40	13.11	-	-	2467.8	24.29	3926.3	38.65	1675.9	16.50	757	7.45
2005/06	10373.7	100.00	195.70	1.89	-	-	3404.3	32.82	4234.7	40.82	1764.1	17.01	774.9	7.47
2006/07	15034.2	100.00	1,019.70	6.78	-	-	5717.1	38.03	5234.4	34.82	2007.9	13.36	1054.9	7.02

Source: Economic Survey of Various Years, Nepal

Figure 4.1.6
Structure of Income Tax in Nepal from fiscal Year 1992/93 to 2006/07



4.1.7 Performance of Public Enterprises on the basis of Gross Profit

Performance of PEs in Nepal is presented in table 4.2.1. Performance of PEs in Nepal is remained poor. It is seen that continued inefficiency and inefficient of PEs have had a profound negative impact on the economy particularly on the issues of sustainability and their over whelming demand on government resources large amounts of sources are invested in PEs by government of Nepal.

During the study period gross profit of PEs is in fluctuating trend. It was Rs. 146.5 million in 192/93. Then it started to increase and become Rs. 1965.60 and reached to Rs. 2404.40 million in 199/00. From 2000/01 it remained negative up to 2003/04. Again the gross profit started to become positive from FY 2004/05 to 2006/07 and reached to Rs. 8902.40 million.

Capital employed of PEs is in increasing trend during the study period. It was Rs. 43482.90 million in the year 1992/93. Then, it started to increase and reached Rs. 162994.60 million in 2006/07.

The gross profit as a percentage of capital employed is in fluctuating trend during the study period. It was 0.34 percentage in 1992/93. Then started to increase and reached to 2.88 percentage in 1999/00. The started to be negative and reached to -2.61 percentage in 2003/04. Then again started to increase positively and reached to 5.46 percentage in 2006/07.

Table 4.1.7
Performance of Public Enterprises from FY 1992/93 to 2006/07

(Rs. In million)

Fiscal Year	Gross Profit	Capital Employed	Gross Profit as % of Capital Employed
1992/93	146.5	43482.9	0.34
1993/94	1073.7	63885	1.68
1994/95	1965.6	59244.8	3.32
1995/96	1377.61	62010.9	2.22
1996/97	475.9	85757.9	0.55
1997/98	1317.9	81270.8	1.62
1998/99	2903.3	83680.8	3.47
1999/00	2404.4	83420.6	2.88
2000/01	-1353.2	82910.5	-1.63
2001/02	-5475.3	150088.2	-3.65
2002/03	-1614.4	97232	-1.66
2003/04	-2524.1	96904	-2.60
2004/05	2130.3	176673.8	1.21
2005/06	1688.7	188464.2	0.90
2006/07	8902.4	162994.6	5.46
Total	13419.31	1518021	

Source: Economic Survey of Various Years, MOF, Nepal

4.1.8 Contribution of Income tax from PEs to Government Revenue of Nepal

The contribution of income tax from PEs in government revenue is presented in table 4.4.2. The share of income tax from PEs in government revenue of Nepal is very low. The share of income tax from PEs in government revenue lies between 0.27 percent and 5.99 percent during the study period. It was 1.69 percent in 1992/93 and started to increase and reached to 5.99 percent in 2000/01. Again it started to decrease from 3.51 percent in year 2001/02. In over all our during the study it was fluctuating trend at the end of the study period it was 0.32 percent.

Table 4.1.8
Contribution of Income tax from Public Enterprises to Government Revenue of
Nepal from FY 1992/93 to 2006/07

(Rs. In million)

Fiscal Year	Government Revenue	Income Tax from PEs	Income tax from PEs as % of government revenue
1992/93	15148.4	255.3	1.69
1993/94	19580.9	534.1	2.73
1994/95	24605.1	860.2	3.50
1995/96	27893.1	1144.5	4.10
1996/97	30377.5	1231.9	4.06
1997/98	32937.9	1327.8	4.03
1998/99	37251	1526.5	4.10
1999/00	42893.8	2198.6	5.13
2000/01	48893.6	2928.6	5.99
2001/02	50445.5	1769.3	3.51
2002/03	56229.8	1251.1	2.22
2003/04	62331.1	2056.6	3.30
2004/05	70122.7	1332.4	1.90
2005/06	72282.15	195.7	0.27
2006/07	87717.15	1019.7	1.16
Total	678709.7	19632.3	

Source: Economic Survey of Various Years, MOF, Nepal

4.1.9 Contribution of Income tax from PEs to Tax Revenue of Nepal

The contribution of income tax from PEs in tax revenue of Nepal is presented in table 4.2.3 The percentage share of income tax from PEs in tax revenue of Nepal is slightly higher than the percentage contribution to total tax revenue. It lies between 0.34 percent and 7.53 percent during the 15 years of study period.

The percentage contribution of income tax from PEs in tax revenue is in fluctuating the 15 years of period. It was 2.18 percent in 1992/93 and it started to increase and reached to 7.53 percent in 2000/01. Then, it started to decrease and

reached to 1.43 in 2006/07. The average percentage contribution of income tax from PEs to government tax revenue during the study period was 4.05 percent.

Table 4.1.9
Contribution of Income Tax from PEs to Tax Revenue of Nepal from Fiscal Year
1992/93 to 2006/07

(Rs. In million)

Fiscal Year	Tax Revenue	Income Tax from PEs	Income tax from PEs as % of tax revenue
1992/93	11662.5	255.3	2.19
1993/94	15371.5	534.1	3.47
1994/95	19660	860.2	4.38
1995/96	21668	1144.5	5.28
1996/97	24424.3	1231.1	5.04
1997/98	25939.8	1317.8	5.08
1998/99	28752.9	1526.5	5.31
1999/00	33152.2	2198.8	6.63
2000/01	38865	2928	7.53
2001/02	39330.61	1769.3	4.50
2002/03	42586.9	1251	2.94
2003/04	48173	2056.6	4.27
2004/05	54104.7	1332.4	2.46
2005/06	57430.4	195.7	0.34
2006/07	71127	1019.70	1.43
Total	532248.81	19621	60.85

Source: Economic Survey of Various Years, MOF, Nepal

4.1.10 Contribution of Income Tax from Public Enterprises to Direct Tax Revenue

In table 4.2.4, the contribution of income tax from public enterprises to direct tax revenue was shown. The percentage contribution of income tax from PEs in direct tax revenue is higher than the percentage contribution in GDP, government revenue and total tax revenue. It lies between 1.40 percent and 28.83 percent during the study period. Its share was 12.54 percent in 1992/93 and it was 5.37 percent in 2005/06.

The percentage contribution of income tax from PEs in direct tax revenue is also in fluctuating trend. The percentage contribution of income tax from public enterprises was minimum 5.37 percent in year 2005/06. The average percentage contribution of income tax from PEs to direct tax revenue during 15 years period was 17.27 percent.

Table 4.1.10
Contribution of Income Tax from Public Enterprises to Direct Tax Revenue
from Fiscal Year 1992/93 to 2006/07

(Rs. In million)

Fiscal Year	Direct Tax Revenue	Income Tax from PEs	Income tax from PEs as % of direct tax revenue
1992/93	2036.2	255.3	12.54
1993/94	2855.3	534.1	18.71
1994/95	3849.3	860.2	22.35
1995/96	4655.9	1144.5	24.58
1996/97	5340	1231.1	23.05
1997/98	6187.9	1317.8	21.30
1998/99	7516.9	1526.5	20.31
1999/00	8951.5	2198.8	24.56
2000/01	10159.4	2928	28.82
2001/02	10597.5	1769.3	16.70
2002/03	10105.7	1251	12.38
2003/04	11912.61	2056.6	17.26
2004/05	13071.8	1332.4	10.19
2005/06	13968.1	195.7	1.40
2006/07	18980.5	1019.7	5.37
Total	130188.61	19621	

Source: Economic Survey of Various Years, MOF, Nepal

4.1.11 Contribution of Income Tax from Public Enterprises to Total Income Tax

The contribution for income tax from PEs in Income tax revenue of Nepal is presented to table 5.2.5. The percentage share if income tax from PEs in income tax revenue is higher then the percentage in government revenue, tax revenue and direct tax revenue. It lies between 1.89 percentage to 33.35 percentage during the study

period. It was 12.31 percentage in 1992/93 and started to increase and reached to 33.35 percentage during the study period. It was 12.31 percentage in 1992/93 and decreased to 6.78 percentage in 2006/07. The percentage share of income tax from PEs in income tax revenue is in fluctuating trend.

Table 4.1.11
Contribution of Income Tax from Public Enterprises to Total Income Tax from
Fiscal Year 1992/93 to 2006/07

(Rs. In million)

Fiscal Year	Total Income Tax	Income Tax From PEs	Income Tax from PEs as % of Income Tax
1992/93	1198.2	255.3	21.31
1993/94	1921.2	534.1	27.80
1994/95	2823.4	860.2	30.47
1995/96	3431.4	1144.5	33.35
1996/97	4123.4	1231.1	29.86
1997/98	4898.1	1317.8	26.90
1998/99	6170.2	1526.5	24.74
1999/00	7420.6	2198.8	29.63
2000/01	9114	2928	32.13
2001/02	8903.7	1769.3	19.87
2002/03	7966.2	1251	15.70
2003/04	9245.9	2056.6	22.24
2004/05	10159.4	1332.4	13.11
2005/06	10373.7	195.7	1.89
2006/07	15034.2	1019.7	6.78
Total	102783.6	19621	335.79
Average	6,852.24	1,308.07	22.39

Source: Economic Survey of Various Years, MOF, Nepal

4.1.12 Contribution of Income tax from Public Enterprises to Corporate Income tax

The contribution of income tax from PEs in corporate income tax is presented in table 4.2.6. The percentage share of share of income tax from PEs in corporate income tax revenue is higher than the percentage share in GDP, government revenue, tax revenue, direct tax revenue and total income tax period. It lies between 5.44 percent and 96.08 percent during the study period. Its share was 95.47 percent in 1992/93 and it was 15.14 percent in 2006/07. The percentage contribution of income tax from PEs in corporate income tax is also in fluctuating trend. The average percentage contributing during the study period was 22.39 percent.

Table 4.1.12
Contribution of Income tax from Public Enterprises to Corporate Income tax
from Fiscal Year 1992/93 to 2006/07

(Rs. In million)

Fiscal Year	Corporate Income Tax	Income Tax from PEs	Income Tax from PEs as % of corporate income tax
1992/93	267.40	255.30	95.47
1993/94	555.90	534.10	96.08
1994/95	1,300.30	860.20	66.15
1995/96	1,708.40	1,144.50	66.99
1996/97	2,089.50	1,231.10	58.92
1997/98	2,242.90	1,317.80	58.75
1998/99	2,681.50	1,526.50	56.93
1999/00	3,538.30	2,198.80	62.14
2000/01	4,852.30	2,928.00	60.34
2001/02	3,181.30	1,769.30	55.62
2002/03	2,487.70	1,251.00	50.29
2003/04	3,587.90	2,056.60	57.32
2004/05	3,800.20	1,332.40	35.06
2005/06	3,600.00	195.70	5.44
2006/07	6,736.60	1,019.70	15.14
Total	42,630.20	19,621.00	840.64
Average	2,842.01	1,308.07	56.04

Source: Economic Survey of Various Years, MOF, Nepal

4.1.13 Major Findings

On the basis of data presentation and analysis some important findings of this study are summarized below.

1. The study shows the contribution of tax revenue is about 81.09 percent and that of non-tax revenue was about 18.91 percent in 2006/07. It shows that tax has been a major source of revenue mobilization.
2. The study shows the contribution of indirect tax is about 73.31 percent and that of direct tax was about 26.69 percent in 2006/07. It shows that indirect tax has been a major source of tax revenue mobilization in Nepal.
3. The contribution of custom duty, excise duty, sales/VAT, corporate tax and other indirect taxes were 40.89 percent, 15.09 percent, 35.72 percent, 3.05 percent and 5.16 percent in FY 1992/93 and the contribution of each were 32.04 percent, 17.92 percent, 50.04 percent zero percent and zero percent in FY 2006/07. It shows that the VAT increasing condition.
4. The contribution of Public Enterprises tax, Semi-public enterprises tax, private corporate bodies tax, Individuals, Remuneration and taxation in interest were 21.31 percent, 0.22 percent, 0.79 percent, 66.83 percent, 4.73 percent and 6.13 percent in FY 1992/93 and that were 6.78 percent, zero percent, 38.03 percent, 34.82 percent, 13.36 percent and 7.02 percent in FY 2006/07. It shows the contribution of Public Enterprises, Semi-public enterprises and individuals in decreasing during period where as the percentage of private corporate bodies, remuneration and taxation on interest were increasing.
5. Income tax from PEs/government revenue was 1.69 percent was and it was 1.16 percent in FY 2006/07. It's minimum and maximum percentage of contribution to government revenue was 0.27 percent in FY 2005/06 and 5.99 percent in FY 2000/01.
6. Income tax from PEs/Total tax revenue was 2.19 percent in 1992/93. It was 1.43 percent in FY 2006/07. It's minimum and maximum percentage of contribution to total tax revenue was 0.34 percent and 7.53 percent respectively.
7. Income tax from PEs/Direct Tax Revenue was 12.54 percent in FY 1992/93 and it was 5.37 percent in FY 2006/07. It's minimum and maximum percentage of

contribution to direct Tax Revenue was 1.40 percent and 28.82 percent respectively.

8. The contribution of Income tax from PEs to total income tax was 21.31 percent in FY 1992/93 and that was 6.78 percent in FY 2006/07. The average contribution of that was 22.39 percent. The contribution of that was decreasing trend.
9. The contribution of income tax from PEs to corporate income tax in FY 1992/93 was 95.47 percent and that was 15.14 percent which was decreasing trend in each FY. The average contribution of that was 56.04 percent.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In each country, a lot of fund is spend by public authority for the protection of common people and for the creation of protection of common people and for the creation of various socio-economic infrastructures. Protections expenditure includes the purchase of arms and ammunition, army and police expenses and administration of joints. The government activities are increasing day by day, because of demand of time, increasing price and national income. Government needs more money to run successfully. The government collects revenue from various sources such as fax revenue from public enterprises, social assessment, fees, fine, grants and assistance, income tax from other sources etc. Among them tax is the main source of government revenue.

Nepal is always with the financial problems every year. There is serious problem of resource gap which is increasing trend. In Nepal, government accumulates required fund manly from internal and external sources to finance regular and development expenditure. Because of the inadequacy of the internal sources for development of nation, Nepal comes under compulsion to rely on foreign loan and grants.

Nepal has been unable for proper mobilization of internal sources. Therefore, fiscal deficit of Nepal has been increasing. Among the internal resources income tax is pivotal one. Income tax should play important role to solve the problem of fiscal deficit. But in Nepal, actual collection of revenue through income tax in lower than its estimated forgets. It is so because of poor tax paying habit of Nepalese tax payers, poor tax administration system and wide spread evasion of income tax. Income tax is a direct tax. It is annual tax charged by the government at the rate prescribed in income tax act.

Nepal is one of the underdeveloped countries; it is still in its very slow move to industrial development. So in Nepal, public enterprises are not matter of choice, rather they are a matter of necessity. In various sector of economy, where private sector has not come forward or has only in limited existence.

The contribution of income tax from PEs play a important role for the development of national economy and to raise the government revenue requirement like poor country Nepal. Beside income tax, PEs have contributed through export promotion, strengthening the revenue generation of government of Nepal, import substitution and saving of Nepal, import substitution and saving of foreign currency by reducing import as well as to providing consumable goods and services at a resonable price.

In the fiscal year 1992/93, contribution of income tax from PEs to government revenue was 1.69 percent. In 2005/04, it was 1.16 percent. Similarly, in corporate tax PEs share was covered more than 90 percent in the earlier year. But it's share decreased to 15.14% in 2006/07. Because of increasing trend of privatization and liquidation of major PEs as well as increasing the contribution of other corporate income tax payers.

The main objectives of the present research were to study the structure of income tax and its contribution from PEs to government revenue in Nepal. As per the nature of study secondary data were collected, tabulated and analyzed. Descriptive and analytical research designs have been followed in this study. The secondary data were collected from economic survey of various years as well as economic indicators of Nepal Rastra Bank. This data were tabulated and analyzed as per the requirement of the research study.

5.2 Conclusions

Nepal has been heavily relaying as the external and internal debt to meet budget deficit because of the low revenue collection as compared to the total expenditure. The deficit is increasing which is not desirable for an economy. Thus it is more essential to mobilize the internal revenue to the optimum level. The study shows the contribution of tax revenue is about 81.04 percent and that of non-tax revenue was been a major source of revenue mobilization.

In indirect taxes, customs and VAT are two major sources and income tax is one of the major sources of direct tax. The major conclusions of this study as stated below.

Internal revenue includes both tax revenue and non tax revenue. Among tax and non-tax revenue, there is dominant share of tax revenue. It's contribution to total revenue was 77.00 percent in 1992/93 but it increased to 81.09 percent in 2006/07.

Total tax revenue is the composition of direct tax and indirect tax revenue. The contribution of indirect tax revenue to total tax revenue was 82.54 percent in 1992/93 and it was 73.31 in 2006/07. The contribution of direct tax was 17.46 percent in 1992/93 and it was 26.69 percent in 2006/07. The share of direct tax is in increasing trend but not in satisfactory level.

Total indirect tax is the composition of custom duty, sales tax, VAT and other tax. The contribution of custom duty, excise duty, sales tax/VAT, contract tax and other tax as indirect tax was 40.98 percent, 15.09%, 35.72 percent, 3.05 percent and 5.16 percent respectively in fiscal year 1992/93 and the contribution of these were 32.04 percent, 17.92 percent, 50.04 percent and zero percent respectively in fiscal year 2006/07. The share of VAT is increasing trend as major rising sector of income tax.

The contribution of income tax from PEs, semi PEs, private corporate bodies, individuals 21.31 percent, 0.22 percent, 0.79 percent, 66.83 percent, 21.31 percent and 6.13 percent respectively in fiscal year 1992/93 and these were 6.78 percent, zero percent, 38.03 percent, 34.82 percent, 13.36 percent and 7.02 percent. It shows the contribution of private corporate bodies and individuals is rising.

The income tax from PEs to total revenue, income tax from PEs to total revenue, income tax from to direct tax revenue were 1.69 percent, 2.19 percent and 12.24 percent respectively and that were 1.16 percent, 1.43 percent and 5.37 percent. Similarly, the income tax from PEs to income tax and income tax from PEs to corporate income tax ratio was 21.31 percent and 95.47 percent respectively and that were 6.78 percent and 56.04 percent respectively in 2006/07.

The most important objectives of income tax imposition of PEs in Nepal are to meet revenue requirement of government and to redistribute national income but there is unsatisfactory contribution of income tax collection from them due to their poor collection from them due to their poor performance, overstaffing, high corporation, high political pressure are the most causes of unsatisfactory contribution of income tax from PEs to government revenue hence the government of Nepal is processing to privatize/liquidate them.

5.3 Recommendations

Based on the major conclusions in this study, some recommendations are explained below. This recommendation will certainly be proved milestone to overcome existing issue in this field. This thesis also opens new topics to all prospects researchers. The researcher was able to gain lots of experience through this thesis. This type of thesis helps to build up confidence of the researcher.

1. The government should increase the base of tax but not tax rate to income the government revenue.
2. The government should levy tax providing certain exemption limit to new sectors of tax payers to collect more tax revenue to fulfill resource gap.
3. The tax system should be practical and effective. It should match the national economic condition. It should equally beneficial to the people.
4. The following recommendations are made to make satisfactory contributions of income tax from PEs.
 -) There should be proper responsibilities and accountability.
 -) The management of PEs should be responsible to failure of public enterprises. They should be punished when they can not meet their targets and they should be awarded when they achieves success.
 -) There should be clear responsibility center.
 -) The management team should be appointed among the professional but not political pressure.
 -) There should be better performance of PEs.
 -) The government economic policy should be clear, overstaffing should be reduced.

In Nepal, income tax system is facing a lot of problems. If above mentioned suggestions and recommendations are managed in time and implemented properly, the problems can be solved n some extent and the income tax will lead to substantial increase revenue. The resource gap should be minimized.

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QUESTIONNAIRE

Name:

Position

Name of the Office\Organization:

Experience in Years:

Dear Sir/Madam please tick () the answer of your choice or wherever appropriate put in order of preference from 1 to last number in the basis of number of alternatives. Number 1 stands for the most important and the last number for the least.

1. Do you think that there are problems in income tax system in Nepal?

Yes

No

If yes, what are the major problems in income tax system of Nepal? (Please rank 1-5)

i) Complexity in income tax act, rules and regulations.

ii) Inadequate economic policy.

iii) Inefficient income tax administration.

iv) Lack of consciousness of tax payers.

v) Increasing habit for tax evasion.

vi) If others, please specify

2. Do you think that there is poor tax paying habit among Nepalese people?

Yes

No

If yes, what are the major causes of poor tax paying habit of Nepalese people? (Please rank 1-5)

i) Poverties of tax payers.

ii) Little knowledge of tax and its benefits.

iii) Defective tax administrative system.

iv) Complexity of tax laws and policies.

v) Lack of incentives for regular tax payers.

vi) If others, please specify

3. Do you think that income tax administration of Nepal is efficient?

Yes

No

If no what are the causes of inefficient income tax administration of Nepal? (Please rank 1-7)

i) Lack of trained and competent personnel.

ii) Complicated tax laws and policies.

iii) Lack of proper communication and direction.

- iv) Lack of coordination within the tax department.
- v) Corruption.
- vi) Lack of public participation,.
- vii) Unnecessary political pressure.
- viii) If others, please specify

4. What should be the specific objectives of income tax imposition for public enterprises in Nepal?

- i) To meet the revenue requirement of government.
- ii) To promote the regional development of Nepal.
- iii) To promote the gap between poor and richer people, through employment.
- iv) To redistribute the national income.
- v) If others, please specify

5. Do you think that the contribution of income tax from public enterprises to government revenue is satisfactory level?

Yes No

If no what are the causes of unsatisfactory contribution of income tax from PEs to government revenue. (Please rank 1-5)

- i) Defective income tax.
- ii) Poor performance of public enterprises.
- iii) High corruption enterprises.
- iv) Over staffing and political pressure.
- v) Weakness of government economic policies.
- vi) If others, please specify

6. In your opinion, what are the problems faced by PEs regarding income tax system?

- i) Inefficient tax administration.
- ii) Heavy fine and penalty.
- iii) High discretionary power of income tax officer.
- iv) Lack of clear act, rules and regulations.
- v) Slow income tax assessment process.
- vi) If others, please specify

7. If any comment and suggestions, please specify

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Thank you for your warm co-operation.

Annex No. 1

Resource Gap in Nepal (1992/93 to 2006/07)

(Rs. in million)

Fiscal Year	Total Expenditure (A)	Total Revenue (B)	Resource Gap-1 (A-B)	Foreign Grants	Resource Gap-2 [A-(B+C)]	Foreign Loan (D)	Resource Gap-3 [A-(B+C+D)]
1992/93	30,897.70	15,148.40	15,749.30	3,793.30	11,956.00	6,920.90	5,035.10
1993/94	33,597.40	19,560.90	14,016.50	2,393.60	11,622.90	9,163.60	2,459.30
1994/95	39,060.00	24,605.10	14,454.90	3,937.10	10,517.80	7,312.30	3,205.50
1995/96	46,542.40	27,893.10	18,649.30	4,825.10	13,824.20	9,463.90	4,360.30
1996/97	50,723.70	30,373.50	20,350.20	5,988.30	14,361.90	9,043.60	5,318.30
1997/98	56,118.30	32,937.90	23,180.40	5,402.60	17,777.00	11,054.50	6,723.30
1998/99	59,569.00	37,251.30	22,327.10	4,336.60	17,990.50	11,852.40	6,138.10
1999/00	66,272.50	42,893.70	23,378.80	5,711.70	17,667.10	11,812.20	5,854.90
2000/01	79,835.10	48,993.90	30,941.20	6,753.40	24,187.80	12,044.00	12,143.00
2001/02	80,072.30	50,445.50	29,626.70	6,686.10	22,940.60	7,698.70	15,241.90
2002/03	84,006.10	56,229.00	27,776.30	1,133.10	16,437.20	4,545.40	11,891.80
2003/04	89,442.60	62,331.10	2,711.50	11,283.41	15,828.09	7,629.10	8,198.99
2004/05	102,560.40	70,122.70	32,437.70	14,391.21	18,046.49	9,266.15	8,780.40
2005/06	110,889.92	72,282.15	38,607.77	13,827.50	24,780.27	8,214.32	16,565.95
2006/07	133,604.60	87,717.15	45,887.60	15,800.81	30,086.79	10,053.50	20,033.29

Source: Economic Survey of Various Fiscal Year, MOF, Nepal

Annex No. 2

Contribution of Direct Tax & Indirect Tax to Total Tax Revenue

(Rs. in million)

Fiscal Year	Direct Tax	% of Direct Tax in Total Tax	Indirect Tax	% of Indirect Tax in Total Tax	Total Tax
1992/93	2,036.20	17.46	9,626.30	82.54	11,662.50
1993/94	2,855.30	18.58	12,516.20	81.42	15,371.50
1994/95	3,849.30	20.23	15,180.70	79.77	19,030.00
1995/96	4,655.90	21.49	17,012.10	78.51	21,668.00
1996/97	5,340.00	21.86	19,084.30	78.14	24,424.30
1997/98	6,187.90	23.85	19,751.90	76.15	25,939.80
1998/99	7,516.10	26.14	21,236.80	73.86	28,752.90
1999/00	8,951.50	27.00	24,200.60	73.00	33,152.10
2000/01	10,159.40	26.14	28,705.70	73.86	38,865.10
2001/02	10,597.50	26.94	28,733.10	73.06	39,330.60
2002/03	10,105.70	23.73	32,481.20	76.27	42,586.90
2003/04	11,912.61	24.73	36,260.49	75.27	48,173.10
2004/05	13,071.80	24.16	41,032.90	75.84	54,104.70
2005/06	13,968.10	24.32	43,462.30	75.68	57,430.40
2006/07	18,980.50	26.69	52,146.60	73.31	71,127.10

Source: Economic Survey of Various Fiscal Year, MOF, Nepal

Annex No. 3

Sartorial Details of Existing PEs up to FY 2006/07

S.N.	Corporation Name	Address of Central Office	Date of Establishment	Act under which PE was incorporated	Capital at the time of corporation (in Rs.)
Industrial Sector					
1.	Dairy Development Corporation Ltd.	Lainchaur, Kathmandu	2026	Co. Act 1964	1.9 Million
2.	Herbs Production & Processing Co. Ltd.	Koteshwor, Kathmandu	2038	Co. Act 1964	250
3.	Hetauda Cement Industry Ltd.	Hetauda, Ward No. 7	2033	Co. Act 1964	-
4.	Janakpur Cigarette Ltd.	Janakpur Dham	2021	Co. Act 1964	20.4
5.	Royal Drugs Ltd.	Babarmahal, Kathmandu	2029	Co. Act 1964	15
6.	Udayapur Cement Industry Ltd.	Jaljale, Udayapur	2044	Co. Act 1964	4000
7.	Nepal Orient Magnestic Ltd.	Lamosanghu	2035	Co. Act 1964	75
8.	Agricultural Input Co. Ltd.	Kuleshwor, Kathmandu	2022	Co. Act 1964	10
9.	National Seed Co. Ltd.	Kuleshwor, Kathmandu	2002	Co. Act 1964	-
10.	National Trading Corporation Ltd.	Teku, Kathmandu	2018	Co. Act 1964	0.5
11.	Nepal Food Corporation Ltd.	Bhadrakali, Kathmandu	2031	Co. Act 1964	3.475
12.	Nepal Oil Corpertaion Ltd.	Babarmahal, Kathmandu	2027	Co. Act 1964	10
13.	The Timber Corporatio of Nepal Ltd.	Babarmahal, Kathmandu	2017	Co. Act 1964	100
Service Sector					

14.	Industrial District Management Ltd.	Balaju, Kathmandu	2054	Co. Act 1964	150
15.	National Corporation Co. Ltd.	Halchowk, Kathmandu	2018	Co. Act 1964	3
16.	Nepal Transit & Warehouse Ltd.	Bagbajar, Kathandu	2028	Co. Act 1964	10
17.	Nepal Engeneering Consultancy	Anamnagar, Kathmandu	2034	Co. Act 1964	4.1
18.	Nepal Airline Corporation Ltd.	Kantipath, Kathmandu	2014	NAC Act 1957	10
19.	National Productivity & Economic Development Center Ltd.	Balaju, Kathmandu	2043	Co. Act 1964	15
20.	Cultural Corporation	Renipokhari, Kathmandu	2029	Communication Corporation Act 1971	17.5
21.	Gorkhapatra Sansthan	Dharmapath, Kathmandu	2019	Gorkhapatra Sansthan Act 1962	0.1
22.	Janak Education Material Center Ltd.	Sanothimi, Bhaktapur	2035	Co. Act 1964	500
23.	Nepal Television	Singhadarbar, Kathmandu	2042	Communication Corporation Act 1971	2
24.	Rural Housing Co. Ltd.	Pulchowk, Lalitpur	2046	Co. Act 1964	200

Public Utility Sector					
2	Nepal Drinking Water Corporation	Tripureshwor, Kathmandu	2030	Co. Act 1964	-
2	Nepal Electricity Authority	Durbarmarg, Kathamandu	2042	Electricity Activity Act	1000
2	Agricultural Development Bank	Ramshahpath, Kathmandu	2024	ADB Act 1967	50

2	Rastriya Beema Sansthan	Ramshahpath, Kathmandu	2024	National Insurance Corporation Act 1968	2.4
2	Nepal Industrial Development Corporation	Durbarmarg, Kathmandu	2016	NIBC Act 1959	15
3	Rastriya Banijya Bank	Bhadrakali, Kathmandu	2022	RB Bank Act 1964	10
3	Deposit Insurance & Credit Guarantee Corporation Ltd.	Tangal, Kathmandu	2034	Co. Act 1964	3
3	Nepal Housing Development Financing Co.	Naya Baneshwor	2046	Co. Act 1964	100
3	Nepal Stock Exchange Ltd.	Singhadarbar Plaza, Kathmandu	2050	Co. Act 1964	50
3	Citizen Investment Trust Ltd.	Putalisadak, Kathmandu	2047	Citizen Investment Cost Act 1990	14.4

Source: Target and Performance of PEs, 2008, Nepal

Annex No. 4

List of Privatized/Liquidated PEs

S.N.	Name of Company	Year of Privatized/ Liquidation	Method of Privatization	Sale of Block share	Sales Proceedees (Rs. '000)
1.	Bhrikuti Paper Mills (BPM)	1992	Asset and business sales	70	229800
2.	Harisidhi Brick and Title Factory (HBTF)	1992	Asset and business sales	72	214830
3.	Bansbari Leather and Factory	1992	Asset and business sales	75	29854
4.	Nepal Film Development Company (NFDC)	1993	Share sales	51	64662
5.	Balaju Textile Industry Ltd. (BTI)	1993	Share sales	70	17716
6.	Raw Hide Collection and Development Corporation Ltd. (RDCDC)	1993	Share sales	-	3990
7.	Nepal Bitumen and Barrel Udhog Ltd. (NBBU)	1994	Share sales	65	13127
8.	Nepal Lube Oil Ltd. (NLO)	1994	Share sales	40	31057
9.	Nepal Jute Trade and Development Company	1994	Liquidation	-	-
10.	Tobacco Development Company	1996	Liquidation	-	-
11.	Nepal Foundry Industry (NFI)	1996	Share sales	51	14473
12.	Shri Raghupati Jute Milles (SRJM)	2002	Share sales	65	82204
13.	Biratnagar Jute Mills (BJM)1	1997	Lease	-	-
14.	Nepal Bank Ltd. (NBL)2	2000	Share sales	-	125140
15.	Nepal Tea Development Corporation (NTDC)	2001	Share sales and Lease	65	267105
16.	Agriculture Project Service Center	2002	Liquidation	-	-

	(APROSC)				
17.	Cottage & Handicrafts Emporium	2002	Liquidation	-	-
18.	Coal Limited	2002	Liquidation	-	-
19.	Hetauda Textile Industry	2002	Liquidation	-	-
20.	Nepal Transport Corporation	2002	Dissolved	-	-
21.	Butwal Power Company	2003	Share sales	75	874200+US\$1 million
22.	Birjung Sugar Factory	2003	Dissolution	-	-
23.	Agriculture Tools Factory Ltd.	2003	Dissolution	-	-
24.	Bhaktapur Brick Factory	2001	Asset and business sales	-	14.5+31.9 Rent
25.	Lumbini Sugar Factory Ltd.	2006	Asset sales and rented	-	78600 (Asset sales) 42.12 (Annual Rent)
26.	Nepal Rosin & Turpentile Ltd.	2006	Asset sales and rented	-	110100 (Asset sales) 30.12 (Annual Rent)
27.	Agro Lime Industry Ltd.	2006	Liquidation	-	-
28.	Nepal Drilling Co.	2006	Liquidation	-	-
29.	Nepal Telecommunication Corporation (Nepal Telecom Ltd.)	2008	Share sales	8.53	4264139
30.	Himal Cement Industry Ltd.	2002	Liquidation	-	-

Source: Target and Performance of PEs, 2008, Nepal

1. Management contract done by company management but rehold by government
2. Government sold only 10% of the shares.