

CHAPTER: 1

INTRODUCTION

1.1 Background

Nepal is one of the least developed countries. Nepal cannot successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social political and geographical constrains over 47 years of planned development. Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period. (Dahal, 1996:2:3)

The Nepalese economy is an agro based developing economy. The agricultural sector provides employment to nearly about 85% of the total population. The output per head in the agricultural sector is very low in comparison to that of developed countries. The balance of payments is not favourable in every year import of goods is higher than export of goods. It has also been commonly known that the gap between expenditure and revenue that is called 'resource gap' is increasing each year.

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

In the modern age, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other activities. Every nation desires to improve its current status through proper utilization of resource. Government receipts may take form of taxes, charges as internal sources and borrowings, grants and loans as external source. Those collected amounts of funds are spent in maintaining security and peace in the country. It includes the purchase

of arms, ammunition, and maintenance of army and police administration. The government also spent its funds for fulfilling the basic needs of people, such as health, communication, drinking water and other public utility and facilities etc. similarly government has to spend in development of socio-economic infrastructure, which facilities to promote the private sector. Total prosperity of the nation can be achieved through the equal participation of private sector in development activities industry.

The government needs huge amount of funds, which can be mobilized through two sources internal and external. Developing countries like Nepal have limited source of internal funds so most of the development activities depend on the external sources. The external sources financing are bilateral and multilateral grants, loans from foreign countries and fund from donor agencies. Those sources have been up Nepalese economy due to the vested interest of the programs and policies of the donor country and agencies and need to pay high interest accepting the inappropriate conditions to take the loan.

Nowadays, prime concern of every nation of world is rapid economic development and Nepal is no exception to this ever continuing process Nepal aims for self reliant economic system to upgrade its living standard of people. Thus a lot of money has to spend to achieve maximum national objectives.

Tax revenue is the important source of government revenue. Taxation is regarded as an effective instrument; it monitors various economic activities in a country. Custom excise, value added tax, corporate and personnel income tax are the example of the sources of the revenue. Government collects revenue through taxation with major objectives of economic development and economic stability (Laudari, 2001:1) Taxation is the main source of government revenue since, it occupies the most important place in the government treasury.

Mobilization of maximum resources through income tax can be done either by increasing present income tax rates on removing income tax evasion. Increasing the present income tax rate will not be the permanent solution “The taxable capacity of Nepalese people very

low, in such a situation the government should be too cautious before imposing a new tax raising the rates of existing taxes in the country”(Kolder, 1967:68)

Countries use of borrowing to raise the necessary public fund is not good for economic development of the every nation. Government has to impose higher tax to repay the interest and borrowed sum too. Generally speaking, resources of public revenue taxes are better than borrowing because it is merely transferring of funds to public treasures. (Plant, 1970:112)

Taxes are compulsory levied on individuals, firms, companies and other units to generate governmental purpose. (Poudyal 1993:21)

According to Adam Smith, “A tax is 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 to the state for its own use or transfer to others, bringing about economic growth, elasticity in the tax structure, control of the internal pressure and reduction of inequality are the main objective of tax policy.

The Great Britain was the first country that introduced modern income tax in 1799 to collect revenue to finance. In 1862, the United States of America introduced income tax to generate revenue to finance for civil war. The federated corporation income tax was introduced in 1909. In India modern 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.

The present study has designed to study the contribution of income tax from NTC to government revenue of Nepal. After the down of democracy in 1950 in Nepal these emerged an environment in which the needs and aspirations of the people were given primary.

Although being a public utility enterprise, NTC’s capable to establish itself as a business firm. Financial position is also very appreciable. It could successively implement its

objectives and plans. Among the government revenue contributors, NTC has been taking top most places NTC contribute to the government by various taxes eg. Income tax, Value Added Tax, Vehicle Tax, Ownership tax etc. Income tax from NTC is increasing every year with some slight fluctuations.

1.2 Focus of the study

Revenue structure of Nepal mostly depends on the foreign assistance and the loan but it is unfavourable to the country being developing country, source of public revenue are very limited in Nepal. Domestic resources are reliable sources to keep minimum dependency of foreign aid and loan. Taxation is a major device for mobilizing of internal source. It is considered as the most effective and reliable instrument for balanced economic development and maintain economic stability.

- This study has studied attempted to highlight the real situation and contribution of income tax in national revenue of Nepal.
- Analyzing problem and prospects raised by Income Tax Act 2058.
- Structure of income tax in Nepal.
- Contribution of income tax from Nepal Telecom (NTC) to government revenue.

1.3 Statement of the Problem.

Like other developing countries in the world, Nepal has been suffering from resources constraints, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, diseases, aggressive dependent on the agriculture, subsistence living standard and poor infrastructure despite over four decades (55 years) planned development efforts.

Without financial resources domestic resources cannot be mobilized. It puts a heavy brake on the overall development, so this problem can be solved by income tax. At present Nepalese tax system are facing several problems such as tax evasion, poor tax administration and on sound income tax collection. Because of the tax evasion habit of

Nepalese people, income tax should be adopted as a fiscal instrument in government revenue which helps to achieve the goal of national development. But the majority of business enterprises have been unable to deliver their expected services: productivity and returns are very poor financial positions are unsatisfactory.

The problem of the study is defined in the following questions.

- What is the structure of income tax revenue of Nepalese Government?
- How has corporate sector been contributing income tax revenue to government?
- What is the present status of income tax contribution of Nepal Telecom?

1.4 Objectives of the study

This study has been carried out with some objective. The main objective of the study is to analyze the effectiveness of income tax on revenue generation in Nepal and give appropriate suggestions to improve the tax system so that the government can collect more revenue and use it in the way of economic development of the country. The specific objectives of this study are as follows:

- i. To analyze the income tax structure of Nepal.
- ii. To analyze the contribution of income tax from corporate sector to government revenue of Nepal.
- iii. To analyze the contribution of income tax from Nepal Telecom to government revenue.
- iv. To provide valuable suggestions and recommendation for efficient implementation and improvement of tax in Nepal with reference to NTC.

1.5 Importance of the study

Income tax plays a significant role in the overall economic development in developing countries. Income tax occupies a very important role in overall tax structure. In the world share of income tax in the overall tax structure is increasing because of its important for the betterment of the country. Nepal can fulfill its financial needs by increasing its revenue through income tax earnings. Contribution from various sectors towards income tax revenue should be increased. It provides information on about income tax revenue collection from corporate with reference to NTC.

This study has been significant for the following groups and individuals.

- It provides the literature to the research or who wants to carry on future research in this field.
- It has been useful for personnel and customer of Nepal Telecom.
- It examines the application of tax planning tools in Nepal.
- It explores the problems and potentialities of Nepal Telecom.

1.6 Limitation of the Study

The present study is not free from the limitation, although efforts have been made to make this study more realistic, practicable and informational for all the people, the study is suffering from the number of limitation as follows:

- This study has been conducted to fulfill the requirement of the MBS programs of T.U. for the prescribed time not for generalizations purpose.
- This study is mainly based on secondary data.
- The study is focused on Nepal Telecom only so, the findings might not be applicable to other public enterprises.
- The study has been conducted in a year, there is limitation of time.

1.7 Organization of the study

This thesis has been designed into five main chapters which are as follows:

Chapter I – Introduction

This chapter covers the background of the study, focus of the study, importance of the study, objectives of the study, statement of the problem and limitation of the study

Chapter II – Review of Literature

This chapter has included two main aspects: 1. Conceptual framework, 2. Review of related studies includes review of thesis, books, articles and reports with findings and recommendations

Chapter III – Research Methodology

This chapter deals with research methodology to be adopted for study consisting introduction, research design, population and sampling, source of data, collection procedure data analysis procedure and uses of tools for analysis.

Chapter IV – Presentation and Analysis of Data

This chapter concern with systematic presentation, analysis and interpretation of data where various financial and statistical tools and techniques has been used. This chapter also focuses open-end options and master findings of the research.

Chapter V – Summaries, Conclusion and Recommendations

The final chapter has devoted to summarize the whole study and conclusion will be drawn based on the major findings recommendations have also presented.

At last bibliography appendix and other supported documentary are attached with the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is as essential art of all studies. It is a way to discover what other research in the area of our problem has uncovered. Review of literature helps the researcher to develop a thorough understanding and insight into previous research works to the present study. It is also a way to avoid investigating problems. A literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose is to develop some expertise in ones area, to see what new contributions can be made and to receive some idea for developing a research design.

2.2 Conceptual Frameworks

Under this chapter, we study basic concept of the chapter in which we are studying about. It includes overview of taxation and tax laws.

2.2.1 Concept of Tax

Government need money to run it, when there is no money, No department of lower level offices of government work as the parts of the body stop working when there is no blood circulation therefore tax is a necessary payment to the government/ tax is a compulsory payment to government for the compensation of public expenditures. Tax payers do not get any direct benefit from the state by paying tax. Tax fulfills the needs of central or local government to spend for philanthropic work. Equal distribution of wealth and income is the main objective of tax. Taxes are compulsory levied on individuals, firms, companies and other units of general with compulsion, some funds from individuals, firms, companies and other units, which generally termed as taxes.

According to classical economist Adam Smith - A tax is a contribution from citizens for the support of the state in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and 1/12 shares of production depending on the quantity of the land possessed by them. All artists had to donate labour compulsory as the payment (Poudyal and Timilsina, 1990).

2.3 Review of Historical Background of Taxation in Nepal

2.3.1 Taxation in the Unified Nepal

During the period certain important was, made in the taxation system. In that time, revenue maximization was the main objective of the tax policy, land tenure system was divided in to five main forms: Raiker, Birta, Guthi, Seva and kiptat. In that period, tax was collected from three levels: Royal palace, central government and local authorities. They collected cash or goods from tax payers as taxes Royal palaces had levied taxes. Government has levied taxes like Dharsan bhe and Sami and local authorities had levied taxes on forest and water source, commercial taxes like customs, transit and market duties, mines and mints, export of forest product like herbs, drugs, wild life birds, elephant and judicial fines. Taxes from land and business were type of direct tax among the all taxes the period.

The founder of modern Nepal, king Prithivi Narayan shah had introduced "pota" tax in 1772, which was regarded as revolutionary measure in fiscal system of Nepal. It was based on the flat rate system rather than progressive rate principal. It was limited of small Birta owners. Through taxation was started, there was no income taxation in the modern sense (Regmi, 1971).

2.3.2 Taxation in Rana Regime (1846-1950)

During the Rana Regime there was no provision of effective revenue administration. The aim sources of revenue were land revenue, custom and export of wood, which was

collected in the lump sum contrast basis during that period and the salami, was collected from government employees as revenue income tax. Besides these taxes, small other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal tax act and finance act.

Taxes were charged according to the will of the Rana Prime Minister. Both the incomes as well as expenditure of the government more confidential in actual practice no difference existed between the private purpose of the ruling minister and the government treasury. Therefore the income and expenditure state were not transparent because there was n practice of presenting the budget to in the period. Rana Prime Minister levied taxes for meeting specific expenditure of the royal house land or extra ordinary expenditure necessitated by war or other crises rather than regular mobilizing revenue in the nation. During Nepal Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsar imposed a levy of 1% on the official value of jaggiar assignment of government employee in 1891 to Finance the transportation of water pipe supply in the capital. Another Rana Prime Minister Ranoddeep Shingh imposes a 50% tax on the income made by fisherman in Deckchai from the sale of fish in 1882 (Regmi, 1988).

2.3.3 Income Tax in Modern Nepal

After the independence of the country in 1951, the role of government has drastically charged. Government was enforced the perform development activities under besides regular function. So, it was realized to impose tax on basis profit and remuneration. Consequently, finance act 1959 was passed. In 1960 (2017), a formal income tax Act (ITA) was exacted in accordance with the provisional of finance Act, 1959 for the first time in Nepal. In three years experience, the business profit and remuneration Act, 1960 was found very narrow and vague and it was replaced by the Nepal ITA 1962/2019). The ITA 2002 also replaced the ITA 1974.

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

2.3.4 Business Profit and Remuneration Tax Act 1960 (2017)

Income tax in Nepal was first introduced in F.Y. 1959/60. It was then known as "Business profit and remuneration tax". The imposition of tax was governed by the business profit and remuneration tax Act 1960 and rules made there under. This act consisted 22 sections. The silent features of this act were as follows.

The source of income purpose was limited only to business and remuneration i.e. income from business and income from remuneration.

Tax on remuneration was to be deducted at source but the specified were granted a rebate of 25% and profit from small industries were granted a rebate of 50%. Deductions of Expenses were not specified for the calculating taxable income. The tax officer was empowered to assess tax on best judgment assessment.

- In case of default, fines up to rs.5000 were prescribed.
- Tax in remuneration was deducted at source (TDS)

This act was very narrow and vague, high discretionary power was granted to tax officer, many loopholes and inadequate provision. So, these reasons this act was replaced by ITA 1953 (2039).

2.3.4.1 Income Tax Act 1962 (2019)

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

- The basis of tax assessment was specified on the best judgment estimate of the tax officers.

- Provision was made for the installment basis of tax for the first time.
- Income tax was defined all kinds of income such as profit from business, profession, remuneration and occupation, house and land rate, agriculture, insurance business agency and any other sources.
- Provision was made for the exemption of income tax industries for a period of not exceeding ten years.
- Carry forward of losses was allowed to a period of two years.
- The act granted the power to constitute the income assessment committee.
- The residential status of the tax payers for the tax payers for the tax purpose was defined.
- Provision was made for reassessment of tax as well as rectification of arithmetical errors.
- Deductible expenses as well as methods of calculation of taxable income were specified.

This act had also some weakness. The changing socio-economic environment of the nation had forced to change the ITA as a result, the ITA, 1974,(2051) was made by abolishing the existing Act 1962.

2.3.4.2 The Income Tax Act, 1974

The ITA can be said to be the refined form of Income Tax Act, 1962. in this act had 66 sections. This act was amended in 1977, 1979, 1980,1985,1986,1989 and 1992to make it more practical and to eliminate confusing terms.

Some of the points of the act with amendment are as follows.

- This act had Clearfield the definitions about income tax, taxpayer, year of income, personal statues of taxpayer, non-resident tax payer, and net income and so on.
- Five source of income had been specified there was:
 - a. Agriculture,
 - b. Industry, Business, Profession or Vocation,

- c. Remuneration,
 - d. House and Land Rent and
 - e. Other sources.
- Carry forward of losses is allowed for within subsequent three years.
 - It had made provision for self- assessment of tax for the first time in Nepal
 - Methods of computing the taxable income from each head had been specified with deductions allowable.
 - Deductions were allowed for life insurance premium.
 - Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
 - Provision was made to make agreement for avoidance of double taxation tax.
 - Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.
 - Provision was making relating to reassessment or additional assessment of tax.

Although ITA, 1974 (2031) was far ahead than the existing act, yet it had many vague or unclear words like reasonable. "Appropriateness" etc. it had also provided high discretionary powers to the tax officer in the matter of tax assets most.

2.3.4.3 Income Tax Act 2002 (2058)

ITA 2002 has been implemented from 2058/12/19 B.S. this act has replaced the ITA 1974 (2051) and other acts related to income tax. Nepal Government enacted income. Tax rules 2051 B.S. in accordance with the authority given under section 138 'g'. ITA is broad, scientific and integration standard level./ the act governs all income tax matters and is applicable to residents residing wherever outside Nepal.

2.4 Review of Terminologies Used in Tax and Taxation

2.4.1 Income Year (Section 2 Jha)

Income from any employment business or investment and the total of that income as. Calculated in accordance with this act. It included all sorts of income received for the provision of labor or capital or both of whatever from nature in the taxable income.

2.4.2 Income Year (Section 2 Jha)

For the every person the tax is imposed and calculated for an income year. The income year corresponds with government's fiscal year, i.e. the period from the start of shrawan of a year to end of ashad of the following year.

2.4.3 Company Section (2DA)

Company means a company established under the company laws for the time begin in force. Besides, the following instructions are also treated as company for tax purpose. Corporate body established under the laws for the time being enforces.

Any unincorporated association committee, instruction society or group of persons other than partnership or a proprietorship firm (whatever or not registered) or a trust. A partnership firm (whether or not registered under, the laws for the time being in force) that has 20 or more partners, a retirement fund, A co-operative , a unit, trust or a joint venture.

2.4.4 Partnership (Section 2 Ka.Pa)

Partnership means a firm (whether or not) registered that has fewer than 20 partners. However, the term does not include a partner. However, the terms does not include a proprietorship from (whether or not registered) or a joint venture.

2.4.5 (Entity Section 2 Bha) Entity Means the Following Institutions or Organizations

- A partnership, trust or company
- A V.D.C. or municipality.
- Nepal government
- A foreign government or a political subdivision of the foreign government, or public international organization established under treaty
- A permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity resident.

2.4.6. Individual (Section 2 Waj)

Individual means a natural person and proprietorship firm whether registered or unregistered owned by the person, if any and a couple making on election as single natural person under section 50.

2.4.7 Exempt Organization (Section 2 Dha)

Exempt organization means the following entities:

Following entities registered with IRD as tax-exempted- a social, religious, educational or charitable organization of the public registered without having a profit motive.

A an amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.

- A political party registered with the electing commission.
- A V.D.C. or municipality
- Nepal Rastra bank
- Nepal government

However, any benefit acquired by any person out of assets of an amount s derived by the entity expect in pursuit of the entity's function or as payment for assets or services rendered to the Entity by the person is not exempt from tax.

2.4.8 Assets (Section 2 Ka Dha)

An asset means tangible or intangible assets. It include currency, goodwill, know-how property and an owner's interest or ownership in foreign branch, a right to receive income whether present or future and party of such asset.

2.4.9 Business (Section 2 Ka, Ja)

Business means an industry, a trade a profession or the like isolated transaction with a business character and includes a past, present or prospective business. However the term does not includes employment.

2.4.10 Employment (Section 2 Jha)

Employment includes a past present or prospective. It is the return for the provision of labour.

2.4.11 Retirement Payment (Section 2 Nga)

Retirement payment means a payment to an individual in the event of the individual's retirement or a dependent of an individual in the event of the individual's death.

2.4.12 Investment (Section 2 Ka, Kha)

Investment means an act of processing or investing one or more assets. But the term excludes act of holding assets or personal use by the person owing the asset and employment and business. However, the act of holding non business charagrble assets is considered as an investment.

2.4.13 Retirement Fund (Section 2 Gha)

Retirement fund means any entity established and maintained solely of the purpose of accepting retirement fund contribution in order to provide retirement fund payment to individual who are beneficiaries of the entity or a dependent of such an individual.

2.4.14 Tax (Section 2 Dha)

Tax means income tax imposed under this act and includes following payments:

- Expenses incurred in the process of creating change and performing auction of the property of tax creditor by the department.
- Amount payable by a withholding agent or withholder or amount payable by an installment payer of tax creditor by the department.
- Amount payable to the department on respect of tax liability of third party.
- Amount payable to the department on respect of a tax liability of third party.
- Amount payable by way of interest and penalties.
- Amount payable by way of fines in order of the department.

2.4.15 Business Assets (Section 2 Ka, Ta)

Business assets mean an assets to the extent to which it is used in a business. However, it excludes trading stock and depreciable assets of a business. A piece of land used in business is an example of a business asset.

2.4.16 Non-Business Chargeable Assets (Section 2 Da)

Non-business chargeable assets mean securities or an interest in an entity as well as land and buildings; however it excludes the following assets:

- Business assets, depreciable assets or trading stock.
- A private residential house of an individual that has been owned continuously for at least three years and resident for total period of at last three years either continuously or intermittently.

- Interest in a retirement fund of a beneficiary.
- A private residential house and land of an individual that is disposed in less than one crore rupees.
- Non-business assets of an individual that is disposed of by way of any type of transform other than sales and purchase made within three generations.

2.4.17 Depreciable Assets (12 Ka Ra)

Depreciable assets means an assets to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear obsolescence or the passing of time. However, the term does not include trading stock.

2.4.18 Associated Persons (2 Ka Na)

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other. It includes

- An individual and relative of the individual or on individual and a partner of the individual.
- A foreign permanent establishment and it's owner.
- An entity and a person who either along or together either an associate or associates controls or may benefit from so percent or more of the rights to income, capital or may benefit from so percent or more of the rights to income, capital or voting power of the entity, as the case required, either directly or through one or more interposed entities: or a person who is an associate of such person.
- (However, the term does not include employee and persons prescribed by the department as not being associate persons).

2.4.19 Taxing Subjects (Sector 2 Ka Nga)

- The tax payers on whom income tax is imposed are persons. A person is a natural person, who is an individual or a couple but includes also a proprietorship, or it can be an artificial person, i.e. an entity means a partnership, trust, company and foreign permanent establishment or government body.
- The act distinguishes between resident and no resident persons. A resident person is an individual whose normal place of abode is in Nepal and who is present at any time of the year, or who is present in Nepal posted aboard at any time during the year.
- A trust is a resident person if it is established in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company residing in Nepal and if is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishment are places where a person carries on business and are subject to tax if they belong to a non-resident person and are situated in Nepal.

2.4.20 Taxable Income (Section -5)

The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any claimed for the year under section 12 (gifts to an exempt organizations) or 63 (retirement contribution to an approved retirement fund) from the total the person's assessable income for the year from each of the followings income heads:

- business
- Employment
- and investment

2.4.21 Income Heads (Section 7,8,9)

The act imposes tax on those activities contributing towards the creation of wealth, wealth is created with the help of labour, capital and capital-labour mix activities that generate income from employment, investment and business respectively. The act makes broad classification of income encompassing almost all income earning activities. They are:

- Business: profits and gains of a person from conducting a business for an income year.
- Employment: an individual's remuneration income from an employment for an income year.
- Investment: profits and gains of a person from conducting an investment for an income year.
- Income and gains are ascertained only after deducting the corresponding expenses. The income from each business and investment needs to be calculated separately.

2.4.22 Exempt Amounts (Section-10)

The following amounts are exempt from tax:

Amount delivered by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Nepal government and a foreign country or international organization.

- a. Amount derived by an individual from employment in the public service of the government by a foreign country provided that.
 - The individual is a resident person solely by reason of performing the employment or is a non resident person.
 - The amounts are payable from the public funds of the country.
 - Amounts derived from public fund of the foreign country by an individual which not a citizen of a Nepal or by a member of the immediate family and the individual.

- Amount derived by an individual who is not citizen of Nepal from employment by Nepal government on terms of a tax exemption.
 - Allowances paid by Nepal government to widows, elder citizens or disable individuals.
 - Amount derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income from business, employment investment.
- b. Amounts derived by an exempt organization by way of gift of donation
- i. Other contribution that directly relate to the exempt organization function whether provided by the organization or not the contribution is made in return for consider provided by the organization
 - ii. Amount derived by Nepal Rastra Bank as per its objective
- c. Pension received by a Nepal citizen retired from the army or police service of a foreign country provided the amount are payable from the public fund of that country

2.4.23 Business Exemptions and Concessions

ITA, 2058 has provided business exemptions and concessions in section 11. 1.

2.4.24 Special Provisions for Entities (section51-58)

ITA – 2058, has introduced some paramount provision of taxation for entities, these are:

- Any entity is viable to tax separately from its beneficiaries.
- Distribution of entities (i.e. dividends) will be taxed to beneficiaries in the form of final withholding payment.
- Amount derived and expenses incurred by an entity are treated as derived or incurred by the entity (not any other person).
- Assets owned and liabilities owned by an entity are treated as owned or owe by the entity and not any other person

- Transactions between an entity and its manager and beneficiaries are recognized.
- A distribution of an entity includes continue:
- A payment made by the entity to any of its beneficiaries in any capacity or any capitalization of profit.
- Dividend distributed by a company to its share holders will be taxed a5% in the form of a final withholding tax dividend distributed by other entity is exempt from tax, dividends of a non-resident entity are distributed to a resident beneficiary, the dividend amount will be included in the income of the beneficiary and if dividends redistributed are out of dividends taxed earlier, such dividends are exempt from tax
- In addition the act contains detailed provisions for liquidations of entities, for dealing between an entity and a beneficiary, for changes in control of an entity and dividend stripping.

2.4.25 Special Provisions for Individuals

ITA- 2058 has made some special provisions for individuals.

- Couples (sec.50): A resident natural person and a resident spouse of the person may elect to be treated as a single individual. For this, they have to notify IRD in writing. In this case, both are jointly or separately liable for any tax payable by the couple for the year
- Medical Tax Credit (sec51): A resident individual may claim a medical tax credit for an income year for any approved medical costs paid by the individual himself or through other during the year in respect of the individual. The maximum amount that can e claimed will not exceed 15% of approved medical costs or Rs. 750. Any excess amount due to limitation or lack of tax payable can be carried forward and adder to the amount for the next income year

Eligible medical costs include:

- Health insurance premium.

- The expenses as per bills for treatment by recognized hospital, nursing home health care or a doctor of on approved retirement fund is free of tax where as an unapproved fund it is subject to full income tax.

2.4.26 Deduction (Chapter 3)

Basically, all actual costs to the extent incurred in generating income from the business or investment are deducted while calculating a person's income. This generalization, however, are taken into consideration in conjunction with the special provisions made in the act. For example, interests paid by exempt controlled entity to the parent in the course of conducting a business or investment, are deductible with some limitations, other costs such as cost of trading stock, repair and improvement cost of owned and used depreciable asset, pollution control, research and development are also deductible with some limitations. Depreciation allowances are granted for depreciable assets, which are categorized in 5 classes. The assets of each class are placed in a pool and a depreciation rate applies to each pool.

Allowable limit for repair and improvement cost of owned and used depreciable asset is raised to 7% of depreciation bases. No deductions are granted for expenses that are of a domestic personal nature, income tax, government penalties costs in deriving wimp amounts of fin withholding payment, dividends distributed by an entity, cost of a capital nature and casts payment above Rs 50,000 under prescribed conditions.

2.4.27 Special Provisions for Retirement Fund

The act distinguishes between the treatment of approved and unapproved retirement fund. Income a resident person files an application with the department intending to get approval for establishing a retirement fund, the department shall pronounce the approval as prescribed.

An individual who is a beneficiary of an approved retirement fund may claim a reduction of retirement contributions made to the fund for an income- year. The limit of the claim is

the lower of Rs 300,000 or one third of his assessable income for the year. Contributions to an unapproved retirement fund are not deductible. The income of an approved retirement fund is free of tax whereas an unapproved fund is subject to full income tax.

2.4.28 International Taxation

For taxation purpose, all payment and gains need to be considered on the basis of the source country of the payment details to the circumstances under which the source rules are defined are given in the act.

Tax is imposed on the repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal

A Non- resident person carrying on a business of chartered or air transport operator are taxed at a flat rate in their amounts derived from carriage of passengers, mail or goods which embark in Nepal. The provision is also applied to non-resident persons who transmit messages by any technical means if the apparatus is established in Nepal.

A tax credit may be claimed for any foreign income tax paid with respect to foreign source income. The tax credits are calculated separately for assessable foreign income sources in each country and will not exceed the average rate of Nepal income tax applied to the assessable foreign income.

2.4.29 Tax Rates

- Resident Natural Person

	Individual	Couple
Initial Exemption	Rs 115,000	Rs 140,000
First Rs 85,000	15%	15%
Balance Amount	25%	25%

- Resident Disabled Natural Person

	Individual	Couple
Initial Exemption (50% additional)	172500	Rs 21000
First Rs 85,000	15%	15%
Balance Amount	25%	25%

- Non- Resident Natural Person

Non Resident natural person shall be taxed @ 25% of taxable income without any exemption.

Additional Tax (Surcharge)

Additional tax @ 1.56% of taxable income shall be levied in addition to above but not levied on tax slab of 1.5% of individual

1. Presumptive Taxation

Individuals under the section 4(4) of income tax act 2058 having maximum income of Rs. 1, 50,000 and annual turnover for business of Rs 15, 00,000 are subject to following tax amounts.

Individual's conducting business

	Tax Rates
• In the metropolitan or sub- metropolitan cities	Rs 2,000
• In municipalities	Rs 1,500
• Anywhere in Nepal	Rs 1,000
• A resident person is eligible to get education of 7% of policy amount for investment insurance Rs 10,000 or actual premium for the year whichever is less.	
• Husband and wife having separated from source are given choice to adopt to assess separately, with individual exemption of Rs. 115000 or jointly as couple with initial exemption of Rs 140000.	
• Contribution in approved retirement fund is deductible to the limit of 1/3 rd of assessable income Rs 3,00,000 or actual contribution in the year whichever is less.	

- For revote Ares A, B, C, D and E deductible allowance is Rs. 30,000, 24,000, 18,000, 12,000 and 6,000 respectively.
- For pension income, additional exemption is 25% of initial exemption or pension income whichever less
- Tax shall be calculated @ 20% instead of 25% in case of natural person engaged in special industry for the whole year entirely or deriving income from exports

B. Tax Liability of an Entity

Some important provisions for the calculation of the tax liability of entities applicable for the financial year 2064/65 are presented below.

1. Tax Rates

Basic rate of Taxes applicable for entities are as shown in the table

Tax Rate for Entities

Entities	Tax Rate
Bank & Finance company, general insurance co- petroleum entities (under Nepal petroleum Act 2040) entities producing alcoholic and tobacco related products	30%
Special Industrial (as defined in section 11 of income tax act) for the complete year.	20%
Entities constructing & operating road , Bridges, Tunnel, ropeway Trolley bus and trading	20%
Entity wholly engaged in the projects conducted so as to build infrastructure, won, opera and transfer it to the Nepal government and in power generation, transmission or distribution	20%
All export entities	20%
Nonresident person providing shipping, Air Transport and telecommunication services in Nepal	5%
Airlines services having offices in and business in Nepal but not operating flights to within Nepal .	2%
Repatriated income of a foreign permanent establishment & a non resident person situated in	10%
Pvt. Ltd, Limited, partnership firm not specifically mentioned above	25%

Source; Income Tax Act 2058

2 Additional Tax

Additional Tax @ 11.5% of Taxable income shall be levied in addition to above.

3 Tax Concession and Rebates

Information Technology oriented industry established in information technology park shall get 25% v rebate of income tax as specified by government if Nepal is gazette.

Industries established on special economic zone (SEZ) shall get tax holiday for initial 5 years and 50% tax rebate there after

Industries established in remote areas shall get 100% tax exemption for 10 years from the date of commencement of the industry.

2.4.30 Set up, Carry Forward and Carry Back of Losses (Section20)

- Losses are in principles deductible but are treated differently depending on whether they result from construction a business or an investment and whether they are of domestic or foreign nature. Looses from a domestic business can be offset against all types and sources of income, where as losses from a domestic investment can be offset any against foreign income. Foreign business losses can be offset against foreign business income or investment. Losses from foreign investment income.
- Unrelieved business losses of previous 4 years are allowed to carry forward.
- In case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as to built public infrastructure, own, operate and transfer to the Government any unrelieved loss the previous seven years are allowed to carry forward.
- If a person incurs a loss for an income year any banking and deduct it in calculating the income from the business for any of the five preceding income years.
- Special provisions exist in the act on how to deal with losses incurred in conducting a business of global long- term contract.

2.4.31 Other Provision of Income Tax Act 2058

- The act has broadened the tax base. Tax rates are spelled out in the act itself and the tax rates and concessions are harmonized on equity grounds.
- A full- fledged self- assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
- The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity uniformity and the transparency. The act has also defined the power and authority of the tax administration.
- The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
- The appeal system is further streamlined by making. It mandatory for the taxpayers to file an objection with the Inland Revenue Department of administrative review before appealing to the revenue Tribunal.

2.5 Theoretical Framework of Tax Planning

Planning is an important tool for every business enterprises whether big or small, old or new private or public, planning regards corporate planning as "A formal and systematic managerial process organized by responsibility time and information to ensure that operational planning project planning and strategic planning are carried out regularly to future of an enterprise" operational planning refers to the facture planning of existing operations in existing market with existing customers. Project planning includes the general appraisal and working out the detail of an action (project) outside the scope of existing operations strategic planning is the process of formulating long-run objectives and deciding on the resources for achieving them. Corporate planning, this includes operational planning, project planning and strategic planning.

Basically there are four ways of minimizing the tax liability i.e. tax evasion, tax avoidance, tax delinquency and tax planning

2.5.1 Tax Delinquency

The meaning of tax delinquency is delaying in paying taxes. Tax delinquency is also one way of reducing tax liabilities. In this case, the liability is reduced in respect value by deferring the payment. Although tax delinquency means the failure to pay tax due to lack of sufficient fund, it also covers non-payment at the time of having fund. It is temporary deceiving of tax by the tax payers although he cannot escape in the long term.

2.5.2 Tax Avoidance

"Tax avoidance is the art of dodging tax without actually breaking the law". It is a method of reducing tax liability by taking advantages of certain loopholes in the tax laws/. Wheatcroft analysis tax avoidance as a transaction, which wouldn't be adopted if the tax saving elements were absent; therefore, tax avoidance involves (a) A transaction interred into avoid tax and with full legal backing and (b) A transaction which the legislature wouldn't intend to encourage. The following are the criteria used by English and Indian court to find out of tax avoidance.

- Use of colorable devices
- Twisting of facts
- Taking only strict spirit of law and suppressing the legislative intend.

Tax avoidance is the reduction of tax liability through the manipulation of exiting law. It is legally permissible but unethical, sec 35 of the income tax act 2058 has defined tax avoidances any means or arrangement, one of the main purposes of e/which is the avoidance or reduction of tax liability.

2.5.3 Tax Planning

Tax planning is the art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concessions allowances and relief's provided for in the tax laws. As such, the basic purpose of corporate tax

planning is to reduce or postpone the overall tax burden in the present and foreseeable future. Tax planning is a discipline and an attitude towards solving the corporate problems in a methodical way from a long run point of view.

Tax planning is a scientific planning of company operations. It is the use of various incentives, concessions, allowances, rebates etc. and it is an activity related to future. It has the objectives of (a) reduction of tax liabilities, (b) minimization of litigation (c) productive investment (d) Healthy growth of the economy (e) economic stability

2.5.3.1 Features and Important of Tax Planning

Features:

- It is the genuine use of the facilities provided by the government.
- It is entrance economic environment of the country.
- It reduces tax liability
- It is universal in nature. It means all the business organizations use tax planning.
- It is a use of expertise to get consciously given facilities.
- It is related to future activities.

Importance:

- Tax planning saves tax and increases profitability.
- It avoids unnecessary worries. Tensions and administrative hassles .
- It helps in using the facilities provided by the government.
- It helps in analysis of risk.
- It creates good business environment.
- It helps in development of man power

2.5.4 Tax Evasion

Tax evasion involves hiding income illegally or concealing the particulars of income or a particular source or sources of incomes or manipulating the accounts to overstate expenditures and other out goings and understate incomes with a view to reducing profit and thus the taxable income. Tax evasion is therefore illegal unethical and uneconomic as well. "Tax evasion means reduction of tax through illegal means. It is done through foddering ways like non-reporting income, underreporting of income making fraudulent changes in account books, maintaining multiple sets of accounts, operating business transactions under different names, transfer pricing etc. tax evasion is unethical, ill equal and uneconomic activity also. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it's uneconomic because it promotes black money i.e. underground economy in a country. Such types of activities do not promote healthy economic system in the country.

Basically, there are three types of effects of tax evasion in the country i.e. less or revenue to the state, redistribution of income which effects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies. Tax factors include tax rate, tax base, tax structure, penalty and possibility of applying penalty if evasion is detested. Mainly tax factors are more concerned with the tax evasion on income from legal activities. There are several types of tax evasion unilateral (Tax payer himself), bilateral (from the collusion of tax officers tax auditors and tax payer) and multilateral (all parties from government to tax payer). In a work of tax evasion, it is very difficult to choose between business men, professional, a person in service, or a politician who is not a tax evader.

2.6 Review of Related Studies

Since 1959/1960, Income tax was started in Nepal after its establishment, many individuals and institutions have studied in this subject regarding legal aspect administrative problems, historical aspect, trend of income tax and income tax structure etc. they have made appreciable efforts in the field of income tax.

Many dissertation, books, articles and newspapers reviewed while preparing this thesis. Many books in this field are written to fulfill the course requirement of the Tribhuvan University. An attempt is made here to review some of the books, thesis, articles and reports, which have been written in the field of income tax in Nepal.

Agrawal (1980) wrote a book entitled "*Resource Mobilization in Nepal*". This book was published by CEDA, Kathmandu. Agrawal contributed towards the new dimension inside of Nepalese income taxation. Agrawal in his book, explains in detail about resource mobilization through income tax. Nepalese fiscal policy, effective tax system and tax policy, income tax system in Nepal's role of income tax in Nepalese tax structure, administrative and legal aspects of income tax in Nepal. His main contribution from this book is concerned to the empirical investigation of facts and figures about the income tax in Nepal. He also calculated the responsiveness and various projections for future about income.

Poudel (1993) wrote a book entitled "*Income Tax Law and Practice*". Poudal has described the most of the related terms in respect with assessment of different income tax. This book has been divided in nine chapters. Poudal has described the most of the related terms in respect with assessment of different income tax. This book has been divided in nine chapter. Poudel has described the most of the related terms in the respect with the assessment of different income tax. Poudel has also described the meaning of tax, basic feature of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of tax payers, industrial enterprises act 2049, and income from

remuneration. Methods of computing net income from remuneration, industry, business, profession and vocation, tax deduction at source, income tax authorities, power of tax office, penalty and appeals, right and duties of tax payers have also been described in this book.

Tiwari (1993) had explained legal provision regarding “*Income Tax System in Nepal*”. He described the process, provisions and methods to assess income tax with numerical examples. His book is based on T.U. syllabus. He had not shown the role of income tax in economic development and problem of income tax system.

Pradhananga (1993) had explained the provisions and law related to “*Income Taxation in Nepal*”. His book is informative rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and role of income tax.

Khadka (1990) had shown “*VAT as a Long Term Tax for Nepal, Income Tax and Composition Tax Revenue*” in his book named "Nepalese taxation: path for reform". In his book, he had described the introduction development, existing structure, main problems and possible direction of reform. His identification of major problems were weak tax administration, imbalance and inadequate organizational pattern, lack of adequate information system. Although he had not mentioned the legal provision of income tax his book is very useful in various aspects of income tax.

Kesharamaya, Pokharel and Dahal (2004) wrote a book entitled "*Taxation in Nepal*". They have described the provisions made under income tax laws. This book is divided in 31 chapters in their book, they have described about income tax and its development in Nepal, tax accounting qualification allocation and characterisation of amounts exemptions concession facilities' and tax rates, expenditure expressly disallowed for deduction, capital or revenue incomes and expenditure tax payer special provision for natural person

and entity, income head 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, total assessable income taxable income and tax liability, international taxation, form of documentation, PAN and refund of tax administration, rights and duties of tax payers and other persons penal provisions, appeal property tax in Nepal, value added tax in Nepal and duties of tax payers etc.

This book has been written to fulfill the course requirement of Tribhuvan University. It is based on the symbols of bachelor level of Management, Law and CA and it is also for master level of Management and law.

Aryal and Paudel (2003) wrote a book entitled "*Taxation in Nepal*". This book is based on ITA 2002. This book is divided in three parts. It has described about tax features of ITA 2058, capital receipt or revenue receipt, special provision for entities and retirement saving, classification of tax payers, and sources of income, assessment, collection and recovery, tax authorities and their powers, right and duties etc. This book is also based on the BBS level. Compilation method of income tax has been dealt with numerical illustration. This book is useful for academic purpose and practical point of view.

Poudel (2002) found within the direct tax, income tax was the largest source, which contributed more than 88%. The contribution income tax to direct tax has increased significantly since its introduction. In terms of the composition of income tax the share of corporate income tax was 59.8% and that of individual income tax was 31.2% in 1999/2000. She had hoped that the coverage of income tax would be widened after the implementation of income tax act 2001.

She had added that the Nepalese tax administration had been attempting to modify. Itself to meet the pressing challenge brought about by change in technology and economic

policies. However, still it's working are traditional and the cost of administration has been brought been to the satisfactory level.

Kandel (2001) had criticized the “*Income Tax Act 2001 on Several Grounds*”. Exemptions of agricultural income from income tax, export duties levied on report, inequality between different capital earned income i.e. tax on interest, dividend and capital gain with drawl of the provision of exemption. Suddenly and no adjustment for inflation are the major issues he raised in his article he also said that tax regime creates more burden than the former one.

Adhikari (2003) wrote a book entitled, “*Modern Taxation in Nepal*”. Adhikari had described the provisions and laws related to income taxation of Nepal according to new ITA 2002. This book has been divided into five chapters.

First chapter has described about theoretical concept of taxation. Second chapter has described about income tax system in Nepal. In this chapter writer has described about head and sources of incomes, employment or remuneration income tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been describes about property tax shoes and compound tax etc. wind fall gain tax and other provisions have been described in fifth chapter. This book is written for students of TU, especially for BBS, MBS and MPA students. However, it is useful to tax payers, tax administrators and others.

Mallik (2003) wrote a book entitled “*Nepal Ko Adhunik kar Parnali*”. Mallik described about development of income tax system in Nepal, computation of income, exempt amount, capital gain special provision regarding natural person and entities, international tax, tax administration, payment of tax, Tax on VAT assessment of depreciation etc. His book is more helpful to know about general information and provision made under income tax act 2002.

Bhattarai and Kiorala (2004) in their book *"Tax Laws and Tax Planning"* described the theoretical and practical aspect of income tax with related provisions. It was based on TU syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

Kandel (2003) in book *"Tax Law and Tax Planning in Nepal"* which is based on government regulation and therefore is a very timely work and extremely helpful for students of Master and bachelor of business studies. This second edition has attached unofficial translation of the tax laws-both acts and rules related to value added tax and income tax appendices. But he had not analyzed the role of income tax, tax structure and problem of income tax.

Dhakal (2001) had presented his enlarged and modified edition of his book including VAT. This book was presented by TU syllabus of BBS and MBS. He had described the legal provision relating to income tax with numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem and weakness of income tax (Income Tax Act 2058).

2.6.1 Review of Previous Thesis

Shrestha (1981) in her study *"Income Tax Nepal"* had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax she has also described per capita burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reason of tax evasion more low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment widespread illegal business activities etc. she found that the tax administration is not efficient.

Although she had given various useful suggestions about the income tax like, scientific method should be applied for the collecting of tax, administration should be made efficient, income tax law should be simple and easy, tax base should be broader etc. She had mentioned the legal provision relating to income tax and empirical investigation.

Ghimire (1993) wrote a thesis entitled "*Principle of Direct Tax and Provision of Direct Tax Rajaswa*" had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, in tax of income tax in Nepal, contribution tax income to national revenue errors of past provision, some steps of administrative improvement etc. he found that the tax covered very low portion of total revenue because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. he had also noticed some errors of provision relating to income tax. They were progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holyday and rebate, provision of low additional fee as compare to market interest rate etc. he also suggested some step of administrative improvement. They were provision of income assessment committee fleet rate of tax to small tax payers establishment of tax office etc.

Acharya (1994) wrote a thesis entitles "*Income Tax in Nepal*". A study of its structure, productivity and problems had describes that the structure of income tax, productivity of income tax and problem of income tax. He examined the three main objectives of income tax, which are as follows:

- To reduced inequality of income distribution
- To collect more government revenue.
- To check infection.

He had also presented some numerical and diagrams of structure and productivity of income tax. He had not explained the provisions relating to income tax, his study about income tax was not so detailed.

Shrestha (2001) wrote a thesis entitled "*Revenue Collection from Income Tax in Nepal, Problem and Prospects*" described the conceptual frame work and legal provisions, structure of income tax in Nepal, income tax administration in Nepal: an empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend.

She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of the consciousness of tax payers unscientific tax assessment procedure, widespread evasion and avoidance of income tax, inefficient tax administration instability in government policy etc. she had taken 60 people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation coefficient to prove the hypothesis on the problem of income tax system.

Although she suggested about the income tax system like extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to the people, she had taken any investigation about the provision of fine and penalties.

Singh (2002) had conducted a research entitled "*A Study on Application of Best Judgment of Income Tax Assessment with reference to ITA, 1974*" need provision and the role of best judgment in income tax assessment are the objectives of the study. In this study he found that in Nepal, income tax assessments are the objectives of the study. In this study he found that in Nepal, income tax assessments are mainly performed by committee. The data shows that above 70% of the total income tax assessment are

finalized by committee. He also found that only 9.01 percent of the total income tax assessments were performed on the basis of account in 199/91, which was 10.49 percent in 1992/ 2000; its share remained only 3.89 percent of income tax assessment. He also discussed on the income tax assessment of Nepal, basis of assessment, necessary condition for the best judgment assessment natural justice and best judgment etc. in this study.

Kandel (2000) presented Ph.D. thesis entitled "*Corporate Tax System and Investment Behavior in Nepal*". He undertook the research work to find out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of this block the development of private investments. The main objectives of this study were to evaluate the corporate tax system in general, to examine of sensitivity of certain policy like inflection capital gain, dividend tax and interest tax etc. Based on their impact on tax burden. He showed the relationship of private investment with average effective tax rate (AETR), marginal effective tax rate (METR) and tax incentives of Nepal.

2.6.2 Review of Reports

Agrawal (1978) a senior research officer of CEDA had conducted a research on a topic, "*Resources mobilization for development the reform of income tax in Nepal*". This study focused the various aspects of income tax in Nepal. Some of the important objectives of this study were as follows.

- To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.
- To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- To examine the ways and means for increasing tax consciousness in the Nepalese public.

Some remarkable findings and recommendation of the reports were as following.

- a. Income tax has been a fast growing category of tax revenue in Nepal.
- b. The individual tax payers contributed more than 50% of the total income tax revenue.
- c. Needs for additional resource mobilizations were growing by 8s times in Nepal and he was experiencing a serious and growing problem of resource gap

Recommendations

- Additional domestic resource should be mobilized through taxation
- Tax structure of Nepal needs to be redesigned in order to increase the role of direct tax.
- Income tax should be reformed in Nepal (Agrawal, 1978).

Revenue consultation committee has studies the overall taxation situation in 2001. This report suggested widening the income tax base by including all kinds of tax payer and find out the tax payers of new sector. The report suggested making the act more transparent and clear in order to attract foreign and domestic investors. This report suggested implementing account bases VAT more effectively. For small tax payers having up to Rs. 2 million, tax collection should be based on the sale and purchase description of there. For income taxation, self assessment was full recommended. 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 couples and family as exemption limit. The report gave suggestion for Nepal government to expend the permanent account number (PAN) outside the valley and reduce the land house registration rate and to rationalize the tax deduction at source (TDS).

2.7 Research Gap

There is the Gap between the present research and previous researchers conducted on tax planning. They were either a case study of a particular company or a comparative study of two different companies.

All the research studies mentioned above are concerned with study of law, provisions, administrative aspects and the structure of tax. Most of them have indicated the inefficiency of tax administration. But major were based on theoretical facts of tax administration. They have identified the problem of income tax evaluation at high level and suggested for its control.

Corporate sector are the backbone of the economy. Contribution of income tax from corporate sector plays vital role in the economy. Here, Nepal Telecom is the main enterprise to contribute revenue for government.

Besides these, contribution of income tax from Corporate Sector with reference to Nepal telecom to government revenue has also been out done analytically. Likewise, structure of corporate sector revenue contribution of Income Tax revenue or contribution of Nepal Telecom to Corporate sector revenue had been studied analytically and intensively by this research.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized process to investigate specific problems. This process of investigation involves a series of well throughout activities of gathering recording, analyzing and interpreting the data with purpose of finding answers to the problem.

The research has two important aspects first; it is sufficiently broad requiring solving to a problem, secondly, it explicitly recognizes the systematic nature of the research process in which data are gathered, recorded, analyzed and interpreted in order manner. Thus, research methodology is the process of bringing to the solving of problems through planning and systematic dealing with the collection, analysis and interpretation of the facts and figures. It reports to the various sequential steps to be adopted by a researcher, who is starting problem with certain object in a view. The objective of the study is to analyze the tax planning and to analyze contribution of income tax from Nepal Telecom to government revenue.

The study includes three types of research as descriptive, analytical as well as empirical.

- Descriptive research includes survey and fact finding in various of different kinds. The major purpose of descriptive is to describe the state of affairs as it exists at present.
- An analytical research has to use facts or information already available and analyze these to make the critical evaluation of the material.
- The empirical research relies on observation alone often without due regard for system and theory. It is data based research coming up with conclusion, which is capable of being verified by observation.

3.2 Research Design

Research design is an overall frame work or plan for the collection and analysis of data. Research design that focuses of the data collection methods, the research instruments utilized and the sampling plan to followed. The research design is the conceptual stricture with in which the research is conducts. Hence, the research design is a plan structure and strategy for investigation of the facts in order to activate the conclusions. This study is primary based on the secondary data but whatever necessary the primary data even also be collected.

Hence descriptive and analytical both the research design has been used to conquest the contribution pattern of income tax from with special reference to Nepal Telecom.

3.3 Sources of Data

Both primaries as well as secondary data have been collected in order to active the real and fateful result out of this research. All the possible and useful data as far possible have been collected. The major sources of data are as follows.

- **Primary Source of Data**

The major tools used for the collection of primary data are the questionnaire to a responsible person. A set of questionnaires are developed and distributed to the selected respondents in order to get accurate and actives information personal as well as telephone interviews was also conducted to collect more information on the object.

- **Secondary Sources of Data**

The secondary source of data has mostly been collected through books, articles, newspaper and reports. The major sources of secondary descript analysis data.

- Economic surveys and budget speech of various years, MOF.
- Annual reports, news and records of Nepal Telecom.
- Publication of Inland Revenue department.

- Reports and records of department taxation, MOF.
- Dissertations related to taxation available at central library TU and library Nepal Commerce Campus.

3.4 Population and Sample

The tax administrations, tax experts, policy maker and tax payers in Nepal were considered as total population. Out of them, the tax administrators, tax experts/policy makers and tax payers in Kathmandu valley were considered as target sample. The denominations of the respondents have been presented in below tables.

Table 3.1
Group of Respondents and Sample Size

S.N.	Groups of the respondent	Sample
1	Tax administrators	20
2	Tax Experts/ Policy makers	20
3	Tax Payers	20
	Total	60

3.5 Data Gathering Procedure

As maintained above, the study is based on primary as well as secondary data. The information of primary data was collected by developing a set of questionnaire and distribute dot the selected respondents in order to get actual and accurate information. Distribution works was done personally rather than sending by any other means.

3.6 Data Analysis Procedure

Collected data from questionnaire was in raw form. Firstly, they has been classified into related categories then after it has been tabulated, re-tabulated and presented into graph in the required format. To get more reliable information using accounting principle, mathematical atrocities and legal provisions if ITA 20589 is taking in to consideration in date analysis procedure. The information received in deferent aspect of taxation and tax

planning from primary and secondary sources was first processed for tabulation and analysis. For, the purpose of analysis generally simple statistical tools have been used which are as

The following tools are applied for the purpose of analysis.

- Average
- Percentage
- Test of Hypothesis

3.7 Weight age of the Choice

The questionnaire asked for either to give yes/No response or to give their opinions. Respondents were also given alternatives to ranks. In this case, the first prepared choice got the highest point and the least prepared choice got the lowest point. The total points got by each alternative were converted into percent of total points available to the all alternatives. The alternatives with the highest percentage were ranked as most important and the alternative with the lowest percent was ranked as the least important. For example, if there five points alternatives, the less important ranked by the responsible got five points and the respondents got one points. The alternative which was not ranked does not have any points.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of the relevant data of taxation in order to fulfill the objectives of this study. To obtain better result the data has been analyzed according to the research methodology as mentioned in third chapter. Writes that a report can be worthless if interpretation is faulty, even if valid and relevant data have been collected. (Pant 1998)

The data after collection help to proceed and analyze in accordance with the outline lay down for the purpose at the time of developing the research plan. The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Giles Studies (as cited in Kothari 2004) explores that data analysis is the relationship or difference supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be sorted to indicate and conclusion.

4.1 Tax Structure of Nepal

Modern economic planning of Nepal has started with the initiation of first economic planning in 1956. Since then, taxes have been used for the achievement of national economic goals. So, tax play vital role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes.

4.1.1 Composition of Total Revenue

Total revenue in Nepal is composed of both tax revenue and non tax revenue when the Government of Nepal presented first national budget in 1951/52. Table 4.1 shows

composition of total tax revenue of government, which includes tax and non-tax revenue from the FY2000/001. It seems that the share of tax revenue has always greater than the share of non-tax revenue. In the FY2009/010 the share of tax revenue and non tax revenue was 86.86% and 13.14% respectively. This indicates that the role of tax revenue is very much important expenditure. Tax revenue has been placed as a major source of government revenue in Nepal. The composition of total running is given below.

Table 4.1
Composition of Total Revenue (Rs in millions)

Fiscal Year	Total Revenue	Tax Revenue		Non tax Revenue	
		Amt	Percent	Amt	Percent
2000/001	48893.8	38865.0	79.49	10028.8	20.51
2001/002	50445.6	39330.6	77.97	11116.0	22.03
2002/003	56229.7	42587.0	75.74	13642.9	24.26
2003/004	62331.0	48173.0	77.29	14158.0	22.71
2004/005	70122.7	54104.7	77.16	16018.0	22.84
2005/006	72282.1	57430.4	79.45	14851.5	20.55
2006/007	87712.2	71126.7	81.09	16585.4	18.91
2007/008	107622.58	85155.5	79.12	22467.0	20.89
2008/009	143474.5	117051.9	81.58	26422.6	18.42
2009/010	179945.8	156294.9	86.86	23650.0	13.14
Average			79.58		20.42

(Source: Economic Survey, 2010/11)

The above table revolved that the total revenue was gradually increased in every year since in the the FY 2000/001 amount Rs 48893.8 million to Rs 178845.8 million in the FY 2009/010. The percentage contribution tax revenue was found fluctuating in different years. The contribution of tax revenue to total revenue was maximum 86.86% in the FY 2009/010 and minimum was 75.74% in FY 2002/003 during this study period. The non tax revenue was continuously increase up to 2008/009 and return Rs 26422.6. The non

tax revenue in FY 2009/010 decreased. The percentage contribution of non tax revenue was decreasing trend. It was 13.14% in FY 2009/010.

4.1.2 Composition of Tax Revenue

Tax revenue is divided into two classes one is direct and the other is indirect. A direct tax is such type of tax which is imposed upon the person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. The tax payer pocket. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax and others are the best examples of the direct taxes. On the other hand, an indirect tax is such type of tax, which is imposed upon any person without direct collecting from him. An indirect tax is imposed on person but paid partly or wholly by another. Sales taxes, VAT, entertainment tax, custom and excise duty are the good examples of this tax. Direct tax is any tax which is imposed on a person who bears its economic impact by himself, indirect tax is such tax which the economic impact is passed to other person for instant, government imposes value added tax on goods sold, but the amount of VAT is collected from customers. Here the tax is imposed upon salesman. However buyer pays tax indirectly. The structure of Nepalese tax revenue is presented below in the table in terms of direct and indirect tax revenues from the Fiscal Year 2000/001 to 2009/010.

Table 4.2
Composition of Total Tax Revenue (Rs in millions)

Fiscal Year	Total Tax Revenue	Total Direct Tax		Total Indirect Tax	
		Amt	Percent	Amt	Percent
2000/001	38865.0	10159.4	26.14	28705.7	73.86
2001/002	39330.6	10597.5	26.94	28733.1	73.06
2002/003	42587.0	10105.8	23.73	32481.2	76.27
2003/004	48173.0	11912.6	24.73	36260.4	75.27
2004/005	54104.7	13071.8	24.16	41032.9	75.84
2005/006	57430.4	13968.1	24.32	43462.3	75.68
2006/007	71126.7	18980.3	26.69	52146.4	73.31
2007/008	85155.5	23087.7	27.11	62067.7	72.89
2008/009	117051.9	34320.7	29.32	82731.2	70.68
2009/010	156294.9	41750.0	26.71	114544.9	73.29
Average	71011.97		25.99		69.01

(Source: Economic Survey, 2010/11)

From the above table; it is found that there has been simultaneous increase in direct tax, indirect tax and total tax revenue in the absolute terms. In the FY2000/001. These amount were Rs 10159.4 million, Rs 28705.7 million and 38865.1 million respectively and during the period of ten years there amounts become Rs 41750 million, Rs 114544.9 million and Rs 156294.9 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in the FY2000/001 was Rs 10159.4 million 26.14 which increased up to 29.32% amount Rs 34320.7 in the FY 2008/009. But the direct tax contribution percentage to total tax revenue was decreased down to 23.73 amounts Rs 10105.8 million in FY 2002/003 and it slightly increased up to 29.32% amount Rs 34320.7 in FY 2008/009. But the indirect tax was 73.86% amounting Rs 28705.7 in the FY 2000/001 and it was increased to 76.27%

amounting Rs 32481.2 in the FY 2002/003 and then it was gradually decreasing trend. The lowest percentage was 70.68% amounting Rs 82731.2 in the FY2008/009.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy on indirect tax to direct 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 paid on the sufficient resource mobilization through internal resources.

4.1.3 Composition of Indirect Tax

The tax structure of Nepal is mainly dependent on indirect taxes, which constituted 73.29% of total tax revenue in 2009/001. Nepalese tax revenue is dependant mainly on international trade and sales/ VAT on goods and services supplement by taxes on income and property to some extent.

The major components of indirect tax in Nepalese tax structure constitutes custom duties, tax on consumption and production of goods and services. Custom duty has been classified mainly into import duty and export duty. Other components of indirect tax like entertainment tax, hotel tax, air flight tax and other tax contribute normal share zero. Table shows the composition of indirect tax given as follows.

Table 4.3**Composition of Indirect Tax Revenue (Rs in millions)**

Fiscal Year	Total Ind. Tax	Custom Duties		Tax on Consumption and Products of goods and services			
				VAT		Excise Duty	
		Amt	Percent	Amt	Percent	Amt	Percent
2000/001	28705.7	12532.1	43.66	12382.4	43.14	3771.2	13.14
2001/002	28733.1	12658.8	44.06	12267.3	42.69	3807.0	13.25
2002/003	32481.2	14236.4	43.83	13459.7	41.44	4785.1	14.73
2003/004	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.17
2004/005	41032.9	15701.6	38.27	18885.4	46.03	6445.9	15.71
2005/006	43462.3	15344.0	35.50	21610.7	49.72	6507.6	14.97
2006/007	52146.4	16707.6	32.04	26095.6	50.04	9343.2	17.92
2007/008	62067.7	21062.4	33.93	29815.7	48.04	11189.6	18.03
2008/009	82731.2	26792.9	32.39	39700.9	47.99	16220.9	19.62
2009/010	114544.9	35150.8	30.69	54920.9	47.95	24306.1	21.36
Average	52216.58	18574.14	37.71	24361.75	45.70	9260.33	16.59

(Source: Economic Survey, 2010/11)

The above table revealed that the custom duty and VAT occupy major portion in indirect tax. In FY 2000/001 the contribution of custom duty was 43.66% which fluctuated between 30.69% to 44.06% and it was 30.69% in the FY 2009/010. The average percentage contribution of custom duty to indirect tax was 37.71% during the study period.

The percentage of custom duty to indirect tax has been decreasing from the fiscal year 2001/002. The sales tax/ VAT have become an important source of overall tax revenue with an increasing trend, which contributed 47.95% to indirect tax in FY 2009/010 as compared to 43.14% in FY 2000/001.

The share of excise duty was 13.14 in FY 2000/001 and was gradually increased 17.17% in the FY 2003/004 then after it has been decreasing to 14.97% in FY 2005/006. Again it was increasing trend which is 21.36% in FY 2009/010. Its average contribution was 16.59% during the study period. The total tax amount collected from excise on industrial product was increased continuously during the study period, which was Rs 24306.1 million in the FY 2009/010.

4.1.4 Composition of Direct Tax

The major components of direct tax are land revenue and registration, tax on property, profit and income. The share of Major components of direct tax is given in table 4.4.

Table shows that the contribution of income tax to direct was lighter than other tax and it occupied the largest share in the direct tax. The percent share of income tax to direct tax in FY 2000/001 was 9114 million which gradually increased up to 31285.6 million in FY 2009/010. The average share of income tax revenue was

Land revenue and house and land registration fees have contributed 6.03% amounting Rs 612.9 million in the FY 2000/001, which was increase gradually to 14.25% amount Rs 1697.5 million in the FY 2003/004 and then after it was fluctuated every fiscal year. The average percentage of land revenue and house and land registration fees to total direct tax was 12.74.

Table 4.4
Composition of Direct tax revenue(Rs in million)

Fiscal Year	Total Direct Tax	Land, Revenue & Reg.				Tax on Property, Profit & Income				
		Land Rev	House & Land Reg fee	Total	% of Total Direct Tax	Income Tax	Tax on prop.	Other tax	Total	% of Total Direct Tax
2000/001	10159.4	5.1	607.8	612.9	6.03	9114	432.5	0	9546.5	93.97
2001/002	10597.5	0.8	1131	1131.8	10.68	8903.7	562	0	9465.7	89.32
2002/003	10105.8	0	1414.3	1414.3	13.99	7966.2	559.5	165.8	8691.5	86.01
2003/004	11912.6	0	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.1	86.75
2004/005	13071.8	0	1799.2	1799.2	13.76	10159.4	806.5	306.7	11272.6	86.24
2005/006	13968.1	0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787.0	84.39
2006/007	18980.3	0	2253.5	2253.5	11.88	15034.0	995	697.8	16726.8	88.13
2007/008	23087.7	0	2940.7	2940.7	12.74	17311.2	1069.2	1766.6	20147	87.26
2008/009	34320.7	0	5223.3	5223.3	15.22	25142.4	1850	2105	29097.4	84.78
2009/010	41750.0	0	5511.1	5511.1	13.20	31285.6	2417.9	2535.4	36238.9	86.80
Average	18795.39	2.95	2475.95	4004.29	12.74	14453.61	1024.08	1051.45	16318.85	87.27

(Source: Economic Survey, 2010/11)

The share of property tax to total direct tax was 432.5 million in the FY 200/001 and 2417.9 million in the fiscal year 2009/010. The percentage of property tax to direct tax is very lower in comparison to income tax, land revenue and registration.

The major portion of direct tax covered by income tax that's why to increase the volume of direct we must focus in the income tax.

4.1.5 Contribution of Income tax from Corporate and non corporate sector

A Corporate sector is a section of society consisting of companies/industries/business house. They are the industrial development side of our society. They contribute to national income generation; infrastructural growth and development of the economy. They represent the producer side of economy and we represent the consumer side of

economy. We consume what they produce (services included). They generate income; we help them generate the same.

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

The corporate sector organization is place where the people have to meet the corporate delegates for their business purpose. The contribution of income tax from corporate and non corporate sector has been shown below:

Table 4.5

Contribution of Income Tax from Corporate Sector(Rs in million)

Fiscal Year	Income Tax	Corporate Income Tax	Percentage	Non Corporate Income Tax	Percentage
2000/001	9114	4852.2	53.24	4261.8	46.76
2001/002	8903.7	3181.3	35.73	5722.4	64.27
2002/003	7966.2	4852.3	60.91	3113.9	39.09
2003/004	9245.9	3587.9	38.81	5658	61.19
2004/005	10159.4	3800.2	37.41	6359.2	62.59
2005/006	10373.7	3600	34.70	6773.7	65.30
2006/007	15034.0	6736.8	44.81	8297.2	55.19
2007/008	17311.2	7391.1	42.70	9920.1	57.30
2008/009	25142.4	10384.2	41.30	8241.8	58.70
2009/010	31285.6	13366.2	42.72	17919.4	57.28
Total			432.3		567.7
Average	14453.61		43.23		56.77

(Source: Economic Survey 2010/011)

According to the table 4.5, we find that contribution of corporate sector revenue on total income tax was too much fluctuation. In FY 2000/001 the contribution of corporate sector revenue was 53.24 percent which fluctuated between 34.70% and 60.9% and it was 42.72% in the fiscal year 2009/010. The average percentage contribution of corporate sector revenue to total income tax was 43.23% during the study period.

The percentage of corporate sector tax to total income has been decreased in FY 2001/002 and increased in 2002/003, and then after again it has been decreasing way from FY 2003/004 to FY 2005/006 again increased in FY 2006/007 and then went to decreasing trend.

Finally above table shows that in total income tax revenue corporate sector's revenue contribute lower than non corporate sector's revenue.

4.1.6 Contribution of Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue on GDP.

Table 4.6

Contribution of Total Revenue, Total Tax Rev., Direct Tax. Rev and Indirect Tax Rev. on GDP(Rs in million)

Fiscal Year	GDP	Total Revenue		Total Tax Rev.		Direct Tax Rev.		Ind. Tax Rev.	
		Amt.	% on GDP	Amt	% on GDP	Amt	% on GDP	Amt	% on GDP
2000/001	413429	48893.9	11.83	38865.1	9.40	10159.4	2.46	28705.7	6.94
2001/002	430397	50445.6	11.72	39330.6	9.14	10597.5	2.46	28733.1	6.68
2002/003	460325	56229.7	12.22	42587	9.25	10105.8	2.20	32481.2	7.06
2003/004	500699	62331	12.45	48173	9.62	11912.6	2.38	36260.4	7.24
2004/005	548485	70122.7	12.78	54104.7	9.86	13.71.8	2.38	41032.9	7.48
2005/006	603673	72282.1	11.97	57430.4	9.51	13968.1	2.31	43462.3	7.20
2006/007	675859	87712.2	12.98	71126.7	10.52	18980.3	2.81	52146.4	7.72
2007/008	755257	107623	14.25	85155.4	11.28	23087.7	3.06	62067.7	8.22
2008/009	909309	143475	15.78	117052	12.87	34320.7	3.77	82731.2	9.10
2009/010	1060881	179946	16.96	156294.9	14.73	41750	3.94	114544.9	10.80

(Source: Economic Survey, 2010/011)

According to the table 4.6, we found that the contribution of total revenue on GDP was in increasing trend, which was 11.83% in the FY 2000/001 amount Rs 48893.9 million which was gradually increased and reached to 12.78% amount Rs 70122.70 million in the FY 2004/005. But it decreased to 11.97 in the FY 2005/006. And then it was increased every fiscal year. The contribution of total tax on GDP was fluctuating on the past ten years. It was 9.40% amount Rs 38865.1 million in the fiscal year 2000/001 and 14.73% amount Rs 156294.9 million in the FY 2009/010. There is significant role of indirect tax in the tax structure of Nepal, which has contributed about three times more than the direct tax. In the FY 2000/001, the contribution of indirect tax and direct tax on GDP were 6.94 and 2.46 amount Rs 28705.7 million and 10159.4 million and 10.80 and 3.94 amount Rs 114544.9 million and Rs 41750 million respectively in the fiscal year 2009/010.

4.1.7 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. The structure of income tax in Nepal is present in Table 4.7

The table presents the structure of income tax in Nepal which shows that the total income tax has increased in every fiscal year except in the FY 2001/002 and 2002/003. It has increased from Rs 9114 million in FY 2000/001 Rs 31285.6 million in FY 2009/010. It's the year 2001/002 it was decreased to 8903.7 million from Rs 9114 million in FY 2000/001 and in 2002/003 it was Rs 7966.2 million then again it started to increase in each year till FY 2009/010.

Table 4.7**Structure of Income Tax Revenue(Rs in million)**

Fiscal Year	Total Income Tax	Public Enterprise		Semi-Public Enterprise		Private Corporate Body		Individual		Remuneration		Tax on Interest	
		Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
2000/001	9114	2928	32.13	0	0	1924.3	21.11	3200.5	35.12	597.3	6.55	463.9	5.09
2001/002	8903.7	1769.3	19.87	0	0	1412	15.86	4419.1	49.63	835.6	9.38	467.7	5.25
2002/003	7966.2	1251	15.70	0	0	1236.3	15.52	3362.3	42.21	1252.65	15.72	864	10.85
2003/004	9245.9	2056.6	22.24	0	0	1531.3	16.56	3533.4	38.22	1391.2	15.05	733.4	7.93
2004/005	10159.4	1332.4	13.11	0	0	2467.8	24.29	3926.3	38.65	1675.9	16.5	757	7.45
2005/006	10373.7	195.7	1.89	0	0	3404.3	32.82	4234.7	40.82	1764.1	17.01	774.9	7.47
2006/007	15034.0	1019.7	6.78	0	0	5717.1	38.03	5234.4	34.82	2007.9	13.35	1054.9	7.02
2007/008	17311.2	204.6	1.18	0	0	7186.5	41.51	6381.2	36.86	2451	14.16	1087.9	6.28
2008/009	25142.4	959.1	3.81	0	0	9425.1	37.49	9877.5	39.29	3195.6	12.71	1685.1	6.70
2009/010	31285.6	1131.8	3.62	0	0	12234.4	39.11	11039.9	35.29	4413.1	14.11	2466.4	7.88

(Source: Economic Survey, 2010/11 and Annual Report of NTC, 2010/11)

4.2 Contribution of Income Tax of NTC in Government Revenue

4.2.1 Introduction of NTC

Communication is one of the basic infrastructures of national development, which helps make people sensitive, active, enthusiastic and skillful. At present these are personal meeting, postal services, telecommunication and newspapers, email and internet.

Telecommunication service is a vital medium of communication in the world. In Nepal the slogan of “Communication for development” has become a catch word for all those included in the development of various means of communications services. Development telecommunication services have received a place of importance in the development plans of our country.

The development functions were transferred to a board which was known as the NTC Board in 1969 and its resource base considerably strengthened in terms of its ability to bundle modern telecommunication services in Nepal. Later in 1975, the telecommunication board was converted into public corporation, which was aimed to be 51% in Nepal Government, 25% share to top staff of NTC and 24% ordinary share to public respectively according Communication Corporation Act, 1971. But it was failed to implement from the date of 15 June 1975, Government run it in cent percent ownership under the Communication Corporation Act, 1971 because of the increasing demand of the telephone lines. NTC has prepared a program to distribute large number of telephone during the Tenth five-year plan. To fulfill these objectives, NTC will establish new telephone exchanges. The number of telephone exchanges has increased and the total distribution line hoped to increase the capacity. Today cellular mobile services have been started from the commercial as well as personal point of view. (Telecom Newspaper Bi-monthly)

4.2.2 Nepal Telecom: An Introductory Profile.

Nepal Doorsanchar Company Limited (Nepal Telecom) was registered on 2060-10-22 under the Company Act, 2053 and the notice to this effect was published in Nepal Gazette dated 26th Chaitra 2060, after dissolving then Nepal Telecommunication Corporation (NTC). However the company name was officially effective from the 1st Baisakh (13th April 2004) and the general public knew it by the name of Nepal Telecom as it is registered trademark of it.

Mission:

Nepal Telecom as a progressive customer spirited and customer responsive entity is committed to provide nationwide reliable telecommunication services to serve as an impetus to the social, political and economic development of the country.

Vision:

“Vision of Nepal Telecom is to remain a dominant player in telecommunication sector in the country while also extending reliable and cost effective services to all.”

Goal:

“Goal of Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of the country.” (Nepal Telecom, Annual Report)

4.2.3 Service provided by Nepal Telecom

- Local Call
- Domestic Telephone
- Local leased lines
- National trunk calls
- International telegram

- International telex
- Operator-assisted international telephone
- Packet switching data communication
- ISDN (Integrated Services Digital Communication)
- Pay phone
- Intelligent Network Services
- PCC Easy Call Services
- AFS advanced free phone services
- Mobile- prepaid, postpaid
- Internet
- Dial up internet access
- PSTN Dial up – Night surfing package
- Fixed hour package- unlimited single user package
- ISDN Dial up
- Lease line connectivity

Most of the PEs in Nepal is suffering from the loss situation. NTC is only such PEs which is operating under the net profit in every fiscal year from establishment. NTC is the top most income tax payer enterprise in Nepal. Telecom is providing modern telecommunication services to the country and other it is operating in profit contributing in the government revenue by various ways.

4.2.4 Role of Nepal Telecom

Telecommunication is one of the quickest, cheapest and most scientific means of communication in the modern world. Without the facility of telecommunication, government could not run economic, governmental and development activities. Other means of communication such as postal services, transportation etc. is slower, expensive and less convenient but the telecommunication is reliable means of communication. It brings coordination among different government entities, which ultimately promotes

administrative efficiency can be expected to enhance the productivity of the government decision and better utilization of society and resource as well as mobilization of labour force for the achievement of national goals.

Telecommunication links to overseas countries, which helps the development of tourist industries, main sources of foreign exchange earning, not only it contributes in national economy but also helps to bring national unity among the national and international people creating brotherhood relationship among people. Telecommunication has also contributed a lot for development of social condition of the country because it is a means of the social condition of the accumulation, earnings and transport of knowledge between people.

In the developing countries like Nepal without contributions of telecommunication in development of the country cannot explain. In Nepal there is not only any sector where telecommunication has not played role. The effects of telecommunication on the rural areas and their contributions to rural development are potentially important, yet rather different to measure. NTC has played an important role in agriculture sector also by providing information on prices and market situations. Therefore telecommunication has played a wonderful role in developing and developed countries to develop and to attain national objectives.

4.2.5 Contribution of Income tax from NTC to GDP of Nepal

The contribution of income tax from NTC in GDP is in fluctuating trend. It is known that the percentage contribution of NTC in GDP is less than in comparison to percentage contribution of PEs to GDP. Percentage contribution of NTC to GDP is very small but it is not small in comparison PEs income tax contribution to GDP. This is presented in the table below.

Table 4.8**Contribution of Income Tax from NTC to GDP of Nepal (Rs in millions)**

Fiscal Year	GDP	Income Tax from NTC	Income Tax From NTC (as % of GDP)
2000/001	413429	702.08	0.17
2001/002	430397	761.02	0.18
2002/003	460325	871.5	0.19
2003/004	500699	1011.55	0.20
2004/005	548485	1175.33	0.21
2005/006	603673	1379.06	0.23
2006/007	675859	2838.26	0.42
2007/008	755257	3648.71	0.48
2008/009	909309	4231.4	0.47
2009/010	1060881	4477.41	0.42
Total	6358314	21096.32	2.97
Average	635831.4	2109.63	0.30

(Source: Economic Survey, 2010/11 and Annual Report of NTC, 2010/11)

Table shows that the share of income tax from NTC in GDP lies from 0.17% to 0.48% during the study period its share was 0.17% in FY2000/001 and reached to 0.42% in FY 2009/010. Its contribution was 0.17% in FY 2000/001 and started to increase and reached to 0.47% in FY 2008/009. Its average contribution of GDP was 0.30% during the study period of 10 years. It shows that income tax from NTC significantly affects the GDP.

4.2.6 Contribution of Income Tax from NTC to Government Revenue of Nepal

The percentage contribution of income tax from PEs in government revenue is fluctuating trend. The contribution of income tax from NTC to government revenue was increasing every year. The share of income tax from NTC in government revenue lies between 1.44% to 3.39% during the study period that it is shown in the following table.

Table 4.9**Contribution of Income Tax from NTC to Government Revenue of Nepal (Rs in millions)**

Fiscal Year	Government Revenue	Income Tax from NTC	Income Tax From NTC (as % of Govt. Rev.)
2000/001	48893.9	702.08	1.44
2001/002	50445.6	761.02	1.50
2002/003	56229.7	871.5	1.55
2003/004	62331	1011.55	1.62
2004/005	70122.7	1175.33	1.68
2005/006	72282.1	1379.06	1.91
2006/007	87712.2	2838.26	3.24
2007/008	107623	3648.71	3.39
2008/009	143475	4231.4	2.95
2009/010	179946	4477.41	2.49
Total	879059.98	21096.32	21.77
Average	87905.99	2109.63	2.18

(Source: Economic Survey, 2010/11 and Annual Report of NTC, 2010/11)

In fiscal year 2000/001 the percentage contribution by NTC was 1.44 than it was started to increase. It was started decrease from FY2008/009.

The contribution of income tax from NTC in total revenue is only 2.18% and other taxes and non tax revenue as contributed by 97.82% that is known by average percentage. The amount of income tax revenue of NTC is increasing every year except in fiscal year 2008/009 and 2009/010. Government revenue is increasing high figure every year where income tax revenue from NTC is is increasing soft and slow manner.

The analysis reflects the increasing trend of both corporate income tax revenue and income tax from NTC respectively.

4.2.7 Contribution of Income Tax from NTC to Total Tax Revenue of Nepal

The percentage share of income tax from NTC in tax revenue of Nepal is slightly higher than the percent contribution to GDP government revenue. It lies between percent and percent during the study period. The percentage contribution if income tax from NTC is in fluctuating trend which is known by the table.

Table 4.10

Contribution of Income Tax from NTC to Tax Revenue of Nepal (Rs in millions)

Fiscal Year	Total Tax Revenue	Income Tax from NTC	Income Tax from NTC as % of Tax Revenue
2000/001	38865.0	702.08	1.81
2001/002	39330.6	761.02	1.93
2002/003	42586.9	871.5	2.05
2003/004	48173.0	1011.55	2.10
2004/005	54104.7	1175.33	2.17
2005/006	57430.4	1379.06	2.4
2006/007	71126.7	2838.26	3.99
2007/008	85155.5	3648.71	4.28
2008/009	117051.9	4231.4	3.61
2009/010	156294.9	4477.41	2.86
Total	710119.6	21096.32	27.2
Average	71011.96	2109.63	2.72

(Source: Economic Survey, 2010/11 and Annual Report of NTC, 2010/11)

The above table showed the place of income tax from NTC in total tax revenue of Nepal. The share of income tax from NTC was recorded 1.81 in fiscal year 2000/001. The percentage of contribution by NTC income tax revenue does not show any definite trend of increase or decrease but fluctuated with range between 1.81% and 4.28%. The

percentage contribution by NTC is drastically reduced in FY 2008/009 and there after. The average contribution of income tax from NTC revenue is 2.72 percent above table shows that income tax from NTC significantly affect the total tax revenue.

In developing countries like Nepal direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue, because of low level of income and standard living in the country. There is substantial contribution of income tax in direct tax of Nepal. The contribution of income tax from NTC in direct tax revenue of Nepal is presented in below.

Table 4.11

Contribution of Income Tax from NTC to Direct Tax Revenue of Nepal (Rs in millions)

Fiscal Year	Direct Tax Revenue	Income Tax from NTC	Income Tax NTC as % of direct tax Revenue
2000/001	10159.4	702.08	6.91
2001/002	10597.5	761.02	7.18
2002/003	10105.8	871.5	8.62
2003/004	11912.6	1011.55	8.49
2004/005	13071.8	1175.33	8.99
2005/006	13968.1	1379.06	9.88
2006/007	18980.3	2838.26	14.95
2007/008	23087.7	3648.71	15.80
2008/009	34320.7	4231.4	12.33
2009/010	41750	4477.41	10.72
Total	187953.9	21096.32	103.87
Average	18795.39	2109.63	10.39

(Source: Economic Survey, 2010/11 and Annual Report of NTC, 2010/11)

The table shows the position of income tax from NTC in direct tax revenue of Nepal. The mean contribution of income tax from NTC is 10.39 percent. The trend of direct tax and

income from NTC is increasing in FY 2000/001 to 2007/008 and decreasing in FY2008/009 and 2009/010. The percentage contribution by income tax from NTC in total direct tax is fluctuating within the range between 6.91 percent and 15.8 percent. The above figure shows that the income tax from NTC has a significant importance in total direct tax revenue.

4.2.8 Contribution of Income tax from NTC and Total Tax Revenue

The role of income tax in our country is increasing almost every year. The continuous improvement and the trend of revenue from income tax are increasing. In our total tax structure, Individual occupies the highest position among different types of income tax. Thus, the share of corporate income tax is required to increase income tax from NTC. Total Tax Revenue is presented below.

Table 4.12

Contribution of Income Tax from NTC to Total Income Tax (Rs in millions)

Fiscal Year	Total Income Tax	Income Tax from NTC	Tax from NTC as % of Total Income Tax
2000/001	9114	702.08	7.70
2001/002	8903.7	761.02	8.55
2002/003	7966.2	871.5	10.94
2003/004	9245.9	1011.55	10.94
2004/005	10159.4	1175.33	11.57
2005/006	10373.7	1379.06	13.29
2006/007	15034	2838.26	18.88
2007/008	17311.2	3648.71	21.08
2008/009	25142.4	4231.4	16.83
2009/010	31285.6	4477.41	14.31
Total	144536.1	21096.32	134.09
Average	14453.61	2109.63	13.41

(Source: Economic Survey, 2010/11 and Annual Report of NTC, 2010/11)

The table shows that contribution of income tax from NTC on total income tax revenue of Nepal. The percentage of income tax from NTC on total income tax revenue was viewed from 7.70 percent to 21.08 percent. In fiscal year 2000/001, the percentage contribution of income tax from NTC on total income tax revenue was recorded as 7.70%. Then the trend went up and down. Thus, the percentage contribution of NTC increased to 21.08 percent in FY 2007/008. After the fiscal year 2007/008, it started to decrease which is in FY2008/009 was 16.83 percent and FY2009/010 was 14.31 percent.

The average percentage contribution by income tax from NTC in total income tax revenue is 13.41 percent for 10 years, It means that income tax from NTC is significantly affects the total income tax.

4.3 Empirical Analysis

An empirical analysis has been conducted in order to find out various aspects of income tax from the experience of real life situations. The major tools used for this purpose in opinion questionnaire. Questionnaires were distributed to tax administrator, tax experts, policy makers and tax payers. The responses received from various respondents have arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire either asked for yes/no response or asked for ranking of choices according to number of alternatives where the first choice was most important and last choice was least important. For purpose choices were assigned weight according to number of alternatives. If the number of alternatives were 5 then the first preference choice got 5 points and last preferred choice got 1 point. Any alternative which was not ranked did not get any point. The total points available to choices were converted into percentage of references to the total points available for all choices. The choices with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. The following table shows the group of respondents.

Table 4.13
Group of Respondents and Code Used

S.No.	Group of Respondents	Sample Size	Code
1.	Tax Administrator	20	I
2.	Tax Experts	20	II
3.	Tax Payers	20	III
Total		60	

(Source: Result of empirical investigation, 2011)

4.3.1 Income Tax as a suitable means of collecting Government Revenue

To know whether income tax as a suitable means of collecting government revenue in Nepal, The question “Do you think that income tax is a suitable means of collecting government revenue?” was asked. The responses received from the respondents are tabulated as follows:

Table 4.14
Income Tax as a suitable means of collecting Government Revenue

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
I	16	80	4	20	20	100
II	20	100	-	-	20	100
III	18	90	2	10	20	100
Total	54	90	6	10	60	

(Source: Opinion Survey, 2011)

From the above opinion survey, it was found that 80% tax administrators all tax experts (policy makers- cent percent) and 90% tax payers recognized income tax as a suitable means of collecting government revenue. Only 20% tax administrators and 10% tax payers did not recognize income tax as a suitable means of collecting government revenue in Nepal. Thus it is conducted that income tax is a suitable means of collecting government revenue.

To know whether there is significant difference between the above views of tax administrators and tax payers (keeping the views of tax experts, policy makers constant), it is tested by chi square (χ^2) test.

Test of Hypothesis

Respondents	Yes	No	Row Total
I	16	4	20
II	18	2	20
Column Total	34	6	40

Null Hypothesis, H_0 : There is no significant difference in tax administrators and tax payers views regarding the income tax is suitable means of collecting government revenue.

Alternative Hypothesis, H_1 : There is significant difference in tax administrators and tax payers views regarding the income tax is a suitable means of collecting government revenue.

Test Statistic: Under H_0 : $\chi^2 = \sum(f_o - f_e)^2 / f_e$

Where, f_o = observed frequency

f_e = expected frequency

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

Calculation of χ^2

Row/Column	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
1,1	16	$(20 \times 34) / 40 = 17$	1	1	0.059
1,2	4	$(20 \times 6) / 40 = 3$	1	1	0.333
2,1	18	$(20 \times 34) / 40 = 17$	1	1	0.059
2,2	2	$(20 \times 6) / 40 = 3$	-1	1	0.333

Calculated $\chi^2 = \Sigma(f_o - f_e)^2 / f_e = 0.784$

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

Level of significance $\chi = 5\%$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Conclusion : Since calculated χ^2 is less than tabulated χ^2 . It is not significant and H_0 is accepted which means that there is no significant difference in tax administrators and tax payers views regarding the income tax is a suitable means of collecting government revenue.

4.3.2 Opinion towards contribution of Indirect Tax.

In order to know whether indirect tax is contributing the total revenue is effective or not, a question asked to the respondents was “In your opinion, is indirect tax contributing total revenue effective to the total revenue?” The question was intended to know the respondent’s opinion toward the role of indirect tax total revenue is effective. The responses received from the respondents have been tabulated below.

Table 4.15
Opinion towards Contribution of Indirect Tax

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Administrators	17	85	3	15	20	100
Tax Experts	20	100	-	-	20	100
Tax Payers	16	80	4	20	20	100
Total	53	88.33	7	11.67	60	100

(Source: Opinion Survey, 2011)

The above table shows that about 88.33% of respondents approved that contribution of indirect tax to total revenue is effective cent percent tax experts recognize the contribution of indirect tax to total revenue is effective and 11.67% of respondent showed their dissatisfaction regarding contribution of indirect tax to total revenue is effective. From this opinion, it can be concluded that the contribution of indirect tax to total revenue is effective.

To know whether there is significant difference or not between the above views of tax administrators and tax payers (keeping the views of tax experts, policy makers constant). It is tested by chi-square (χ^2 test).

Respondents	Yes	No	Row Total
Tax Administrator	17	3	20
Tax Payers	16	4	20
Column Total	33	7	40

Null Hypothesis: H_0 : There is no significant difference in tax administrators and tax payer's views regarding contribution of indirect tax to total revenue is effective.

Alternative Hypothesis, H_1 : There is significant difference in tax administrators and tax payer's views regarding the contribution of indirect tax to total revenue is effective.

Test statistic, under H_0 , $\chi^2 = \sum(f_o - f_e)^2 / f_e$

Calculation of χ^2

Row/Column	f_o	$f_e = RT \times CT / GT$	$f_o - f_e$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
1,1	17	$20 \times 33 / 40 = 16.5$	0.5	0.25	0.0151
1,2	3	$20 \times 7 / 40 = 3.5$	-0.5	0.25	0.0714
2,1	16	$20 \times 33 / 40 = 16.5$	-0.5	0.25	0.0151
2,2	4	$20 \times 7 / 40 = 3.5$	0.5	0.25	0.0714

Calculated $\chi^2 = \Sigma(f_o - f_e)^2 / f_e = 0.173$

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

Level of significance $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Conclusion: since calculated χ^2 is less than tabulated χ^2 , it is significant and it is accepted which means that there is no significant difference in tax administrators and tax payers views regarding the contribution of indirect tax to total revenue is effective.

4.3.3 Most Important Factors for Effectiveness of Income Tax

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

Table 4.16

Most Important Factors for Effectiveness of Income Tax

S.N.	Objectives	Group			Total Points	%	Rank
		I	II	III			
1	Clear Act Rules & Regulation	98	85	89	272	31.30	1
2	Conscious & Honest Tax Payers	44	60	52	156	17.95	3
3	Honest Tax Officers	39	52	44	135	15.53	4
4	Effective Tax Administration	68	63	48	179	20.59	2
5	Political non Interruption	41	36	50	127	14.69	5
Total		290	296	283	869	100	15

(Source: Opinion Survey, 2011)

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

1. Clear act rules and regulations
2. Effective tax administration
3. Conscious and honest tax payers
4. Honest Tax officers
5. Political and non interruption
6. Attitude towards income tax administrators

4.3.4 Attitude towards Income Tax Administrators in Nepal

To know the respondents views regarding effectiveness of income tax administration in Nepal, a question. Do you agree that the Nepalese income tax administration is effective? The responses are tabulated as follows.

Table 4.17

Attitude towards Income Tax Administration in Nepal

Respondents	Yes No.	%	No No.	%	Total No.	%
Tax Administrator I	4	20	16	80	20	100
Tax Experts II	3	15	17	85	20	100
Tax Payers III	2	10	18	90	20	100
Total	9	45	51	255	60	100

(Source: Opinion Survey, 2011)

From the above table it has become clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 85 percent of respondents recognized it ineffective just 15% respondents approved Nepalese income tax administration is effective. To know, whether there is significant relationship or not between the above views of tax administrators. It is tested by Chi-square (χ^2) test of hypothesis.

Test of Hypothesis

Respondents	Yes	No	Row Total
I	4	16	20
II	2	18	20
Column Total	6	34	40

Null Hypothesis, H_0 : There is no significant difference in tax administrations and tax payers views regarding the effectiveness of Nepalese Income Tax administration.

Alternative Hypothesis, H_1 : There is significant difference in tax administrators and tax payer's views regarding the effectiveness of Nepalese Income tax administration.

Test statistic, under H_0 the test statistic is: $\chi^2 = \Sigma(f_o - f_e)^2 / f_e$

Calculation:

Row/Column	f_o	$f_{e=RT \times CT / GT}$	$f_o - f_e$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
1,1	4	$20 \times 6 / 40 = 3$	1	1	0.333
1,2	16	$20 \times 34 / 40 = 17$	-1	1	0.058
2,1	2	$20 \times 6 / 40 = 3$	-1	1	0.333
2,2	18	$20 \times 34 / 40 = 17$	1	1	0.058

Conclusion:

Degree of freedom = $(r-1)(c-1)$

$$= (2-1)(2-1) = 1$$

Level of significance $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated χ^2 is less than tabulated χ^2 . It is not significant and H_0 is accepted which means that there is no significant different in tax administrators and tax payers views regarding the effectiveness of Nepalese income tax administration.

4.3.5 Attitude towards Income Tax System in Nepal

Income tax system of Nepal has been blamed that it has many problem. To know whether income tax system of Nepal has problem or not a question was asked “Do you think that there are problems in income tax system of Nepal?” The responses received from respondents are tabulated as follows.

Table 4.18

Attitude towards Income Tax System in Nepal

S.N.	Respondents	Yes		No		Total	
		Nos	%	Nos	%	Nos	%
I	Tax Administrators	16	80	4	20	20	100
II	Tax Experts	18	10	2	10	20	100
III	Tax Payers	15	75	5	25	20	100

(Source: Opinion Survey, 2011)

From the above table it has become clear that there has problem in Nepal i.e. 81.67% thought that there were problems in Nepalese income tax system. Only 18.33% of the respondent thought there weren't problem in Nepalese income tax system.

In order to know the problem of income tax system of Nepal the next question was asked “If yes, What are the major problems in income tax system of Nepal?” The respondents were requested to choice specific objective among the fine available alternatives below presented table given a breakdown of responses.

Attitude towards Income Tax System in Nepal

S.N.	Objectives	Group			Total Points	%	Rank
		I	II	III			
1	Complexity in income tax act rules & regulation	46	7	7	20	33.33	1
2	Inadequate economic polity	2	1	4	7	11.67	4
3	Inefficient income tax admins	4	3	5	12	20	3
4	Lack of consciousness of tax payers	7	5	3	3	25	2
5	Increasing habit of tax evasion	1	4	1	1	10	5

(Source: Opinion Survey, 2011)

From the above table the major problems of income tax system of Nepal were ranked in order of the preference of the respondents as follows:

- Complexity in Income Tax Act rules and regulation
- Lack of consciousness of tax payers
- Inefficient income tax administration
- Inadequate economic policy
- Increasing habit of tax evasion

From the above it can be conclude trend in the opinion of respondents, there are problem in income tax system in Nepal. Basically due to complicity in income tax act rules and regulation, lack of consciousness of tax payer and inefficient income tax administration were the major problem. The other cause response by the respondents was lack of consumer awareness.

4.3.6 Attitudes towards Poor Tax Paying Habit among Nepalese People

It is said that taxpaying habit among Nepalese people is poor. To know whether the taxpaying habit among Nepalese people is poor or not a question was asked. Do you

think that there is poor taxpaying habit among Nepalese people? The responses received from the various respondents are tabulated as follows:

Table 4.19

Attitude towards Poor Tax Paying Habit among Nepalese People

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Administrators	17	85	3	15	20	100
Tax Experts	18	90	2	10	20	100
Tax Payers	19	95	1	5	20	100
Total	54	90	6	10	60	100

(Source: Opinion Survey, 2011)

From the above table, it is clear that there is poor tax paying habit among Nepalese people. Most of the respondent (i.e. 90%) thought that there was poor tax paying habit among Nepalese people.

In order to know the causes of poor tax paying habit among Nepalese people another question was asked. If yes what are the major causes of poor tax paying habit among Nepalese people? The respondents were requested to rank there answers from 1 to 5 scales.

Table 4.20

Major Causes of Poor Tax Paying Habit among Nepalese People

S.N.	Major Causes	Group			Total Points	%	Rank
		I	II	III			
1	Poverty of tax payers	32	20	28	80	9.06	5
2	Little knowledge of tax payers + its benefits	87	53	65	175	19.82	4
3	Defective administration system	60	81	74	215	24.35	3
4	Complexity of tax laws and policies	81	59	50	190	21.52	2
5	Lack of incentives for regular tax	70	78	75	223	25.25	1

(Source: Opinion Survey, 2011)

The major causes of poor taxpaying habit among Nepalese people were ranked in order to know preference of respondents as follows:

- Lack of incentives for regular tax payers
- Defective tax administration system
- Complexity of tax laws and policies
- Little knowledge of tax and its benefits
- Poverty in tax payers

It can be concluded that the above tabulated results that in the opinion of respondents, there is poor taxpaying habit among Nepalese people due to lack of incentives for regular tax payers, defective tax administration system and complexity of the laws and policies.

The other causes are less transparency and accountability of the Nepalese people.

4.3.7 Opinion towards contribution of NTC Income to Revenue of Nepal

In order to know whether NTC income is contributing the income tax revenue or not, A question asked to the respondents was in your opinion, is NTC income contributing significantly to the income tax revenue of Nepal? The question was intended to know the respondents opinion towards the role of NTC income in the income tax revenue. The responses received from respondents have tabulated below.

Table 4.21

Contribution of NTC Income to Income Tax Revenue of Nepal

S.N	Respondents	Yes		No		Total	
		Nos	%	Nos	%	Nos	%
I	Tax Administrators	13	65	7	35	20	100
II	Tax Experts	16	80	4	20	20	100
III	Tax Payers	11	55	9	45	20	100
Total		40	66.67	20	33.33	60	100

(Source: Opinion Survey, 2011)

The above table showed that 66.67% of the respondents showed their satisfaction regarding the contribution of NTC income to income tax revenue of Nepal and about 33.37% of the respondent showed dissatisfactory regarding the contribution of NTC income to income tax revenue of Nepal.

Thus it can be conceded that contribution of NTC income to the income tax revenue is significant.

To know, whether there is significant relationship or not between the above view of tax administration and tax payers (keeping the views of tax experts, policy makers constant) it is tested by Chi-square test.

Test of Hypothesis

Respondents	Yes	No	Row Total
Tax Administrators	13	7	20
Tax Payers	11	9	20
Column Total	24	16	40

Null Hypothesis, H_0 : There is no significant different in tax administrators and tax payers views regarding the contribution of NTC income tax of Nepal.

Alternative Hypothesis, H_1 : There is significant different in tax administrators and tax payers views regarding the contribution of NTC income to income tax revenue of Nepal.

Test statistic, under H_0 , $\chi^2 = \sum(f_o - f_e)^2 / f_e$

Calculation of χ^2

Row/Column	f_o	$f_{e=RT \times CT / GT}$	$f_o - f_e$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
1,1	13	$20 \times 24 / 40 = 12$	1	1	0.083
1,2	7	$20 \times 16 / 40 = 8$	-1	1	0.125
2,1	11	$20 \times 24 / 40 = 12$	-1	1	0.083
2,2	9	$20 \times 16 / 40 = 8$	1	1	0.416

Calculated $\chi^2 = \sum(f_o - f_e)^2 / f_e = 0.4165$

Degree of freedom = $(r-1)(c-1)$

$$= (2-1) (2-1) = 1$$

Level of significance $\alpha = 5\%=0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Conclusion:

Since calculated χ^2 and tabulated χ^2 , it means there is no significant difference in tax administrators and tax payers views regarding the contribution of NTC income to income tax revenue of Nepal.

4.3.8 Problem Faced by Nepal Telecom Regarding Income Tax System

It has been blamed that Telecom is facing various problems regarding to income tax system. To know the fact question was asked. In your opinion what are the problems face by telecom regarding to income tax system? The respondent was requested to choose on alternative from the available alternatives. Below presented table given breakdown of responses.

Table 4.22

Problems Faced by Telecom regarding to income tax system

S.N.	Major Problems	Group			Total Points	%	Rank
		I	II	III			
1	Inefficient Tax Admin	4	7	6	17	28.33	2
2	Heavy Fine & Penalty	4	3	5	12	20	3
3	High Discretionary power	-	-	1	1	1.67	5
4	Lack of Clear Act	7	7	6	20	33.33	1
5	Slow Income Tax Assessment Process	5	3	2	10	16.67	4
Total		20	20	20	60	100	

(Source: Opinion Survey, 2011)

The major problem faced by telecom regarding to income tax system were ranked percentage in order to know the preference of the responded as follows:

- Lack of clear act, rules and regulation
- Inefficient tax administration
- Heavy fine and penalty
- Slow income tax assessment process
- High discretionary power of income tax officer

Lack of responsibility and accountability are other problem faced by the telecom regarding income tax system.

It can be concluded that telecom are facing various problem regarding to income tax system basically due to the lack of clear act, rules and regulations, inefficient tax administration and fine and penalty attitude towards income tax system in Nepal.

4.4 Major Findings

4.4.1 Findings of the Primary Data

Income tax is the suitable means of raising government revenue.

Contribution of indirect tax to total revenue is effective than direct tax.

Clear act rules and regulation, effective tax honest tax officers, political and non interruption are the most important instruments for effectiveness of income taxation in Nepal.

There are problem in income tax system in Nepal. Due to the complexity in income tax act, rules and regulation, lack of conscious of tax payers, inefficient income tax administration inadequate economic policy and increasing habit of tax evasion.

Nepalese income tax administration is ineffective.

There is poor taxpaying habit among Nepalese people basically due to the lack of incentives for regulation tax payers defective tax administration system and complexity of tax laws and policies.

Contribution of telecom income to income tax revenue has been found satisfactory. Telecom is facing various problems requiring to income tax system, due to the lack of clear act, rules and regulation, inefficient tax administration and heavy fine and penalty.

4.4.2 Findings of the secondary data

The major findings of the study are pointed out as follow:

Nepalese revenue structure consists of tax and non tax revenues. Tax on consumption and product of goods and services has occupied first place regarding its contribution to total revenue of Nepal. The mean contribution of tax on consumption and product of goods and services over the ten years period is 34.30 percent of the total revenue of Nepal.

- Nepalese tax revenue is the composition of direct and indirect tax revenue average contribution of direct and indirect revenue to total tax revenue is 25.99 percent and 69.01 percent.
- Nepalese income tax structure is formed by contribution of income tax from public enterprises, private corporate bodies, individual taxes on employment, tax on interest and other taxes. Contribution of individuals has occupied first position in total income tax revenue. The mean contribution of income tax from individuals in total income tax revenue from FY 2000/001 to FY 2009/010 has been computed to be Rs 5520.93 million, public enterprises, private corporate bodies, employment, interest, other taxes and semi public enterprises have occupied second, third, fourth, fifth, sixth and seventh position in total income tax revenue of Nepal.
- Tax revenue GDP ratio in FY 2000/001 was 9.40 percent and it was 14.73 percent in FY 2009/010. It shows that the tax on GDP ratio of Nepal is not good.

- Nepalese government expenditure is increasing at the faster rate than the increase in revenue. Therefore the resource gap has existed in Nepalese economy and it is increasing trend.
- It had been observed that contribution from NTC income tax to government revenue was 1.44 percent in FY 2000/001 and 2.49 percent in FY 2009/010 respectively. Its average contribution to government revenue was 2.18% for the study period. Its minimum and maximum percentage of contribution to government revenue was 1.44 percent and 3.39 percent respectively.
- In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue because of low level of income and standard of living in the country. There is substantial contribution of income tax. The average share of income tax from NTC to direct tax revenue is 10.39 percent. It was 6.91 percent and 10.72 percent contribution in FY 2000/001 and 2009/010 respectively. Income tax from NTC significantly affects the direct tax.
- The contribution percentage of income tax from NTC and total income tax was 7.70 percent and 14.31 percent in FY 2000/001 and FY 2009/010 respectively. Its average contribution was 13.41 percent for the period of study year. Its minimum and maximum percentage of contribution to total income tax was 7.70 percent and 21.08 percent respectively.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:

Nepal is agriculture based least developed country. The economic status of Nepalese people is very poor. The per capita income is near about 400 dollars. This is lowest among SAARC countries and almost lowers per capita income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To launch these activities government needs various resources – money, man, machine and materials. Nepalese economy is facing serious problem of resource gap revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country but the revenue surplus is not adequate to undertake development activities sufficiently in the country. So Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

Nepal government can use internal and external resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit of Nepal has been increasing. To solve the problem of fiscal deficit, income tax should play an important role in Nepal, but income tax has not been seen mobilized properly. The present study entitled income tax collection from corporate sector with special reference to Nepal Telecom.

In second chapter, the review of literature had made through the study of various books, articles, dissertation and other reference materials, various concepts of taxation have been discussed in this study. Sources of government revenue, meaning of the

classification of taxes, objectives of taxation, historical background of income tax, heads of income and concept of taxation.

In chapter four, has presented the primary as well as secondary data and analyzed then to get the meaningful result. Economic survey and annual report of NTC were the major source of secondary data. To collect primary data a set of questionnaire was developed and 60 questionnaire were distributed to the respondents.

The main objective of the present research was to study the structure of income tax and its contribution from corporate sector to government revenue of Nepal with reference to NTC.

5.2 Conclusion

Revenue structure of Nepal is composed of tax and non tax revenues. Tax revenue has the largest share of contribution in total revenue i.e. average 79.58 percent of total revenue has been fund to be contributed by tax revenue in total revenue from FY 2000/001 to FY 2009/010. Tax on consumption and product of goods and services has occupied first position regarding its contribution in total revenue.

Tax revenue has consisted direct and indirect tax revenue. Direct tax revenue has been dominated by indirect tax revenue. From FY 2000/001 to 2009/010 average contribution of indirect tax revenue has been found 69.01 percent in tax revenue.

Contribution of income tax has been increasing trends. It has been observed that contribution from NTC income tax to government revenue had increased at first (till date of FY 2007/008) and decreased thereafter. It shows that income tax for NTC significantly affects the total revenue.

Direct tax cannot produce more revenue because of low level of income and standard living in the country. There is substantial contribution of income tax and income tax form NTC significantly affects the direct tax.

Income tax is an important source of collecting government revenue contribution of indirect tax to total revenue is effective than direct tax.

The success or effectiveness of income tax system entirely depends upon the implementation of provisions which is the major responsibility of income tax administration.

There is poor tax paying habit among Nepalese people. Basically due to lack of incentives for regulator tax payers, defective tax administration system.

Contribution of Telecom income to income tax revenue has been found satisfactory.

Telecom is facing various problems regarding to income tax system, due to lack of clear act, rules and regulations, inefficient tax administration and heavy fine and penalty.

5.3 Recommendations

In the basis of above analysis, the following recommendation is afford.

Nepalese tax revenue is heavily dominated by indirect tax revenue. Only one fourth of tax revenue has been contributed by direct tax revenue. It is necessary to increase the share of direct tax revenue to development of economy. Resource mobilization through direct taxation should be focused.

The tax system should be practical and effective. It should match the rational economic condition. It should be equally beneficial to the people.

A national wide campaign should be launched to explain laws, tax program and benefits of tax with a view of stimulating dynamic participation of the public in order to pay taxes through media of radio, television, newspaper and speech programmes in the educational institutions and society.

Formally, 15 percent to 18 percent tax- GDP ratio is regarded as moderate standard but Nepalese tax- GDP ratio does not maintained it, so the government should make appropriate the government should increase the proportion of tax to GDP ratio.

The analysis shows that contribution percentage of income tax from NTC to government revenue increasing way at first and went to decreasing way during the study period; so NTC should give high priority to increase the amount of revenue so that the contribution to government revenue would be increased. For that, NTC should prepare and implement profit planning and control concept effectively.

Government should increase the amount of investment in NTC to render services to the customer and generate more revenue from NTC. To increase invest NTC should modernize its existing service rendering system in town areas and extend its coverage of service in deprived cores of the country, which is supported to increase the ratio of direct tax revenue and total tax revenue.

To fulfill resources gap of economy, income tax must be imposed to land owners and property owners who have high income and government should apply appropriate measures to reduce the high resource gap.

NTC's staffs are main focus to utilize the corporation assets more effectively and efficiently thought which NTC can increase its profit earning capacity. The corporation must prepare the highly qualified, dynamic and energetic personal.

NTC's management should feel responsibility to contribute the state. The staff involved in tax realization should be sincere, loyal, dedicated in implementing income tax act 2058 properly.

NTC should have an efficient management system to control over costing. It should apply standard costing system and should establish a cost control centre.

The following recommendation is made for improvement of income tax administration.

- a. Delay in assessment should be reduced as possible.
- b. Unnecessary outside pressure should be avoided.
- c. Proper direction and communication should be made more effective.
- d. Total tax education should be provided to tax officials as well as tax payer's regulatory.

The following recommendations are made to solve the problems faced by Telecom regarding income tax system.

- Income tax administration should be efficient.
- Income tax act rules and regulations should be made clear and simple.
- Income tax assessment process should be made easy and fast.

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 in some extent and the income tax will lead to substantial increase revenue.

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APPENDIX

QUESTIONNAIRE

Dear Sir /Madam,

I would like to introduce myself as a student of Central Department of Management TU, Master of Business Studies (MBS) final year I am going to prepare a thesis entitled "*Income Tax Contribution of Corporate Sector (With special reference to Nepal Telecom)*" in partial fulfillment of the requirement for the degree of Master business studies of Tribhuvan University.

This questionnaire has been developed and presented before you to spare some of your valuable time to provide your valuable suggestions and opinions concerning with income tax system in Nepal, which will be very useful and glide me for completing my research work. I assure to keep every detail you provide me confidential.

I am looking forward for your co- operation and support as soon as possible.

Thank You

Yours Sincerely,
Bishnu Kumar Rijal

QUESTIONNAIRE

Please put tick mark, () in choice. Please rank from 1 (most important alternative) to last number in order to preference.

1 Do in your opinion; is the income tax as a suitable means of raising domestic resources in Nepal?

a Yes () b No ()

2 Do you think that the income tax system of Nepal is sound and effective?

a yes () b No: ()

3. Do you think special provisions to Service industries should be provided?

a Yes () b. ()

if yes , (Please rank)

a. To increase in tax revenue ()

b. To promote industry ()

c. To promote industry back ward area ()

4 Is the special provisions provided to Service industries sufficient ?

a Yes () b No ()

If yes (Please Specify)

5 Are the special provisions provided by ITA 2058 are implemented effectively in Service industries?

a. yes () b. No ()

If no, (please rank)

a. Lack of Knowledge of ITA ()

b. Negligence of tax administrator ()

c. Lack of skilled manpower ()

d. Lack of effective tax planning ()

e. Others (Please Specify)

6. Is there any impact of the act 2058 on Service industries?

a. Yes () b. No ()

7. ITA 2058 has classified the total area into remote, undeveloped, underdeveloped for tax purpose, does it helps to collect the tax?

If yes (Please rank)

- a. Easy to collect tax revenue ()
- b. To promote the industry ()
- c. Easy to promoting to establish the industry ()
- d. Others (Please specify)

8. What types of complain do Nepal Telecom?

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.....
.....

9. Do you think that t6he tax administration of Nepal is effective to impose fines and penalties as per necessary?

- a. Yes () b. No ()

11. Is if necessary to provide 1/3 depreciation more to natural person too?

- a. Yes () b. No ()

12. Are the industrial tax payers responding their duties and rights sincerely in computation of taxable income?

- a. Yes () b. ()

If No, what should be the reasons (Please Rank?)

- a. Lack of information ()
- b. Legalization problems ()
- c. Lack of tax education ()
- d. Poor enforcement for final and penalty ()
- e. Others (Please specify)