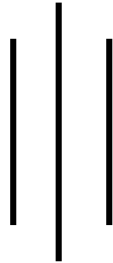


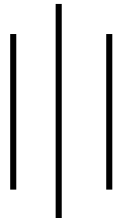
**AN ANALYSIS OF TAX INCENTIVES AND ITS EFFECT ON  
TAX PLANNING FOR INDUSTRIAL SECTOR UNDER INCOME  
TAX ACT, 2058**



**A Thesis Submitted to:**

**Office of the Dean  
Faculty of Management  
TRIBHUVAN UNIVERSITY**

**In the Partial Fulfillment of the Requirement for the Master Degree of  
Business Studies (MBS)**



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Kirtipur, Kathmandu  
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April 2012**

## **RECOMMENDATION**

**This is to certify that the thesis**

*Submitted by*  
**Gopal Bahadur Shrestha**

*Entitled*  
**of Tax Incentive and its Effect on Tax Planning for Industrial Sector Under  
Income Tax Act, 2058**

**has been prepared, as approved by this Department in the prescribed format of  
Faculty of Management.**

**This thesis is forwarded for examination.**

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**Dr. Gipi Nath Regmi**  
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Date: .....

## VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by  
Gopal Bahadur Shrestha

*Entitled*

**Analysis of Tax Incentive and its Effect on Tax Planning for Industrial Sector  
Under Income Tax Act, 2058**

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

**Master Degree in Business Studies (M.B.S.)**

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**Member (Thesis Supervisor):** \_\_\_\_\_

**Member (External Expert):** \_\_\_\_\_

**Member (Head of Department):** \_\_\_\_\_

**Date:** .....

## DECLARATION

I hereby declare that this thesis entitled “**Analysis of Tax Incentive and its Effect on Tax Planning for Industrial Sector Under Income Tax Act, 2058**” submitted to the Central Department of Management, Tribhuvan University, Kirtipur, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of **Dr. Gopi Nath Regmi**, Central Department of Management, Tribhuvan University.

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## **ABBREVIATION**

B.S.	:	Bikram Sambat
Etc	:	Etcetera
FNCCI	:	Federation of Nepal chambers of Commerce and Industry
DGP	:	Gross Domestic Product
i.e.	:	That is
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
IRO	:	Inland Revenue Officer
Ltd	:	Limited
M.A.	:	Master of Arts
M.B.A.	:	Master of Business Administration
M.B.S	:	Master of Business Studies
MICS	:	Ministry of Industry, Commerce and Supplies
MoF	:	Ministry of Finance
Nos	:	Numbers
Pcc	:	Pollution control cost
Pvt	:	Private
R&D	:	Research and Development
T.U.	:	Tribhuvan University
WTO	:	World Trade Organization
ICAN	:	Institute of Chartered Accountants of Nepal
(P)	:	Private
SAARC	:	South Asian Association of Regional Development

# CHAPTER I

## INTRODUCTION

### 1. Background of the Study

Nepal is one of the least developed countries in the world. It is basically an agricultural, mountainous and landlocked state surrounding by two large, fast developing nations China and India. The large segment of the population has been engaged in the agricultural sector, it has not been generating sufficient employment opportunities. Most of the labor forces are unemployed and poor. So, the huge labor forces have to transform into industrial sector. To reduce the poverty and unemployment of a country, it is very necessary to grow up the industries. Country like Nepal, where the biggest part of the human resource is adopting agriculture based occupation; industrialization is fundamental need to develop the country.

The process of planned industrialization started with launching of first five year plan in 1956 A.D. Before 1956, there was no modern industry in Nepal. The establishment of the Biratnagar Jute Mill in 1956 led the foundation of modern industry in Nepal. Despite of long experience of industrialization (about 50 years) industrial status is still very poor. Because of poor industrial status, Nepal's economy is very much weaker than any other industrial country. It is the major reason of the Nepalese dependency on foreign grants and loan. It is necessary to develop industries to increase the economic status of the country.

A conducive environment is necessary to attract the industries and for expansion of industry. Government needs to provide such environment. Various incentives and subsidies should be provided to the investors. Those incentives should encourage in the establishment of new industries and operation of existing industries. Among the various incentives, income tax incentive is also a major one to attract the investors. Nepal has been practicing various tax incentives programs but still the industrialization process is very slow. The income tax act (ITA) 2058 has provided various tax incentives and

facilities to industries to attract the investment. However the number of new industries is not enough to address the economic development.

For any country, tax is one of the most important income sources of government revenue collection, which directly affects the economic system of the society. With tax the government not only collects money but also regulates all the business organization. Mainly there are two benefits if tax collection system is effective and systematic. Thus, if tax collection system is effective, government can collect much more money and can use that amount in the development activities. On the other hand if the tax system is practical, people don't feel this as the financial burden imposed by the government to the public and in result tax evasion and tax avoidance reduces significantly.

Hence, the economic development of any country depends upon its industrial growth. The industrial development is the backbone of economic development. So, industrial sector must be developed to accelerate the pace of economic development of the country, for this purpose tax system is also a factor and it should be practical and effective.

Planning is the way of making any task easy and systematic. It is a scheme formulated in mind to systematically forward the procedure of task operation. In the other way, planning is to make decisions about the future by choosing the best from different alternatives. Thus, tax planning means the use of all these facilities given by the government to reduce the tax liabilities. In other word, tax planning is the scientific planning of the companies, Operations in such a way as to attract minimum liabilities of tax or the postponement of tax liabilities for the subsequent period by availing of various incentives, concessions, allowances, and rebates and relieves. Every business organization has to make decision while conducting its business activities. That means every business organization uses to plan as regards to its future activities. Such, future activities may be short term or long term or medium term and operational or strategic. If tax is considered while planning the business activities of an organization, it is called tax planning. Although, tax planning

helps to reduce the amount of tax and initiates to establish new industry to investor, it is not widely used tools.

Especially in Nepal it is difficult to find tax planner industry. In one hand, it looks like most important tools to any business organization of industry, it has lots of scope and need but in other hand it is not in practically used. Thus, it can be said that tax incentives are the root cause of tax planning. If the tax incentives are highly initiative and encouraging, tax planning goes through widening. It means more tax incentives give people more attention and more consciousness to work on it. So, tax incentives and tax planning are highly correlated. Thus it can be said that more widening area of tax incentives leads to more widening adoption of tax planning. Although above statement is just an assumption till now because sufficient study has not been done previously relating to the study about the effect of tax incentives on the planning. Before understanding and considering tax planning. Importance of tax planning and its relationship with industrial development is to be understood. And no one can put a demarcation line on interrelation between these two terms. In absence of this concept studies are incomplete regarding the tax planning. Thus, it is necessary to study on the issue of tax incentives and its effect on tax planning.

## **1.2 Statement of the Problem**

Economic development is the prime concern of every nation of the world. To fulfill these objectives, countries of the world are formulating plans but developing countries are facing serious problems in the process of economic development.

Nepal is not an exception to this condition. After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not seen to have reached at its target point as it has a small economy with limited resources and political instability. Such unfavorable features help to draw back the economic status of the country. The poverty line of the people (about 38% of the total population) and the per-capital income

400 US dollar per year (World Development Report 2010, World Bank) shows the poor economic condition. It needs huge amount of investment in industry for economic development. Despite various measures adopted by government of Nepal to boost up the industrial investment the growth rate of industry is still very poor.

Nepal is a least developed country and industrial development of the country is very poor. To operate and establish of trade and industries, government have to provide various tax incentives and facilities. In one hand, income tax act 2058 and its related laws have mentioned various tax incentives and deduction facilities to industries while proper tax planning made, such as only 20% tax rate in compare to 25% in other trading business, tax rebates of 30% , 25%, 20% to the industries established in remote, undeveloped and underdeveloped area. Tax deduction facilities pollution control cost (PCC) and Research and Development (R & D). However, no organization can be found which has adopted tax planning. However, it has given more importance for the rural part of the country and more initiation to domestic industry, the provision is not being implemented.

Tax planning is one of the most required tools for any business organization because it reduces the tax burden and provides sufficient opportunity to grow up the business. Tax planning encourages generating maximum employment which helps in mobilizing the human resource of the country. Till now, despite of various tax incentive provisions, tax planning is not widely adopted tools. So, these are the various problems relating to tax planning and which are the real problems of this study.

Thus in this context following problems can be raised.

1. What are the major problems of tax planning implementation in Nepal?
2. What is the effect of tax incentives on tax planning?
3. What types of tax incentives are further required to implement tax planning widely in the industrial sector?



4. Are the present tax incentives and facilities to industries provided by ITA 2058 sufficient?
5. Are the tax incentives and tax planning positively correlated?
6. What are the major problems of tax incentives provided by ITA to industries?

### **1.3 Objectives of the Study**

Every study must have some specific objectives. So, this study has also some specific objectives. The main objectives of this study are to get insight into the tax incentives provision allowed by the present tax system and find its effect on tax planning. Thus, the effectiveness of the tax incentive can be found out and the possible measure regarding tax planning can be suggested for further improvement. This study has also tried to make aware to policy makers and industrialist about them.

So, the objectives of this study are as follows:

1. To analyze and examine the tax incentives provided by ITA 2058 to industries.
2. To analyze the tax planning practices and its problems in Industrial sector of Nepal.
3. To examine the effect of tax incentives on tax planning in industrial sector of Nepal.

### **1.4 Scope of the Study**

This study has tried to cover only the industrial aspect and view of policy maker, professor and tax payer on the issue of tax incentives and its impact on tax planning of present tax system. Its aim is to study the tax incentives and tax planning and their correlation in the context of current industrial environment. Likewise, to find out the impact of tax incentive in industrial development and analyze the difficulties to adopt tax planning

system to the organizations which will ultimately affect to the economic development of the country

The scope of this study can be presented as follows:

- Role of tax incentives and facilities to industries.
- Effect of the tax incentives on tax planning.
- Role of tax planning to industries.
- Suggestion to tax planning implementation.
- Guide to policy maker about tax incentives and tax planning.
- Tax laws and procedures, income tax rate, exemption limit income tax act.
- Industrial study in the view point of tax incentives and tax planning.
- Guide to existing and perspective industrialists about tax incentives and tax planning.

### **1.5 Limitations of the study**

This study has been conducted within certain limitations and constraints.

Some of them are as follows:

- The study emphasizes only the industrial aspect of income tax.
- The study analyses only the effect of tax incentives on tax planning in the industrial sector.
- The study analyzes only the problem of tax planning implementation.
- Time is the main constraint; therefore, few samples have been selected for opinion survey.
- Primary data have been collected from the tax experts and tax payers only.
- The respondents are from the Kathmandu valley only.
- The study is confined to Nepalese laws, acts, rules, ordinance, regulation and circular to income tax.

No doubt, the above limitations have some impact on quality of the study, but such impact will not affect usefulness of the study in significant way. In fact, this study will provide a base for further study in the field of tax incentives and tax planning in the industrial sectors.

## **1.6 Organization of the Study**

Keeping above objectives in mind, the present study has been organized in the following six chapters:

Chapter-I: Introduction

Chapter - II: Review of Literature

Chapter - III: Conceptual Framework

Chapter - IV: Research Methodology

Chapter- V: Data presentation and Analysis

Chapter - VI: Summary, Conclusion and Recommendation.

**Chapter-I** provides general background of the study, statement of the problems, objective of the study, scope of the study, Need of the study, Limitation of the study, organization of the study.

**Chapter-II** is related to review of literature of different books, articles and dissertation.

**Chapter-III** is related to the conceptual Framework of the study and is concerned with overview of legal provision regarding the tax incentives and tax planning under ITA 2058.

**Chapter-IV** Is the research methodology used in this study. It includes research design, weight of choice, respondents profile etc.

**Chapter-V** is related with presentation and analysis of data which is related with study i.e. empirical investigation.

**Chapter-VI** is concerned with the summary, conclusion and recommendations of the study.

## CHAPTER II

### REVIEW OF LITÉRATURE

A literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of student's interest. Review of literature is an essential part of all studies. It is a way to discover what over research in the area of given problem has uncovered. Its supports the researcher to explore the relevant and true fact for the reporting purpose in the field of study. Here literature means the related printing materials about the subject matter of research work it may be in various forms like books, booklets thesis report, project work report etc. Research review of the existing literature would help to check the chance of duplication in the present study. Thus one can find what studies have been already conducted and what still is to be studied.

There are various theses to research different aspects of income tax. This is the dissertation especially to overview the effect of tax incentives on the tax planning of industries in Nepal i.e. this study is concentrated on the tax incentives and tax planning. Only few books, dissertations, articles and reports are found which are concerned with the tax incentives and tax planning. However many books, dissertations article, and reports were studied and have been reviewed to carryout this research.

In this chapter, an attempt is made to review some of the literature related to the topic under study. The study is carried out by dividing the chapter into different section, such as review of books, review of master's thesis and related journals and articles.

#### **2.1 Review of books:**

B.B. Lal (1992) , An Indian author published his 14<sup>th</sup> revised edition entitled '**Direct Taxes**' in which he has mainly focused on income tax, wealth tax, gift tax and tax planning. He has revised this book considering the Indian Tax Act 1991. In this book, he has mainly pinpointed different provision of tax incentives and its uses in regards to tax planning. He states that the admissible depreciation has been restricted to 75% in the case of corporate assesses, to

promote tourism sector; the rate of deduction was increased from 30% to 50% compared to the previous. Tax rate was increased from 8% to 12% and domestic companies were liable to pay such charge 15% for the purpose of preventing tax erosion, scope of tax deduction, economic welfare, and expenditure in eligible projects approved by national committee. It was allowed to be deducted in computing taxable profits of business or profession. Publishing industry has been given a boost by providing 20% deduction in computing total income. Interest on refund was 1% per month.

He has described about tax planning in first chapter. Meaning of tax planning, methods of tax planning, tax management, scope of tax management and test of successful tax planning are the sub- topics in this book. The scope of tax management is fully based on Indian Direct Tax Law Act 1991. He has categorized the scope of tax management under ten different headings. They are capital gains, deduction of tax at source, house property profit and gains of business or profession, salaries, advance payment of tax, filing and return of income, review of un favorable orders, documentation and maintenance of records, in compliance with law (Lal; 1992) .

Poudyal (1993) has written a book entitled, “**Income tax Law and practice**”. This book was based on the syllabus of B. Com. Level. In this book, he has described income tax under different headings-Meaning and feature of income tax, history of income tax in Nepal, Direct tax, In direct tax, Types of taxpayers etc. He has given some examples of Computation of income tax from various income sources.

He has also described the tax incentives and facilities given to industry according to Industrial enterprises Act, 2049. This Book is descriptive in nature, not analytical one. Further, the legal provision related to income tax authorities, power of tax officer, penalties and appeals, right and duties of taxpayers has also been described in this book. (Poudyal; 1993)

Singhania (1995) published his fifteenth edition book entitled “**Direct Taxes**” In this book he has given a typical approach to study of direct taxes keeping in view the specific requirement of the candidates appearing in CA,

CS, ICWA, M.Com., LLB, and MBA examinations as well as those appearing in income tax department examinations. The main aim of this book is to enable the students to cut the time spent by them in preparing for the examination. At the same time has given them most precise and up to date information on the subject of their study. Although concept of direct tax is analyzed thoroughly, in the case of tax planning only some hints are given where tax planning can be resorted too.

Prasad (1996) has written a book entitled **“Direct Tax Law and practices”** which is his 30<sup>th</sup> edition. In this book he has focused on income tax, wealth tax, gift tax and tax planning management however tax incentives and tax planning are the bases to identify and link the other tax terminology and practice. He has laid more emphasis in the tax planning portion. He has tested each chapter with the aspect of the tax planning or management. He states that while commencing business, there is some scope in selecting the form of business organizations. One has to analyze income and the rate of tax applicable to gate insight into the type of business form. In the chapter of capital and Revenue, he adds any business man should be aware of whether he is incurring the expenses in the category of revenue or capital assets and only revenue nature expenses can be claimed whether calculating the taxable income. In the chapter of profit and gains o business or profession, he has recommended the following considering tax incentives titles for a new business in respect of tax planning.

- a. Location
- b. Form of organization
- c. Nature of business
- d. Capital structure
- e. Obtaining fixed assets
- f. Setting up and commencement of business

In the case of depreciation, he says that the knowledge of claiming depreciation at proper time at proper rate, tax liability could be reduced considerably. In capital gain, he has stressed that one should be careful while

deciding to incurred the expenses in short- term capital and long- term capital because short- term capital gains are taxed as any other income where long- term capital are treated with concession. Like wise, income tax on long-term capital gains can be saved if the amounts are invested etc. keeping in view the relevant provisions. In the head of carry forward and set of losses, he has emphasized that the provisions relating to set off and carry forward of losses are important particularly for those who are planning either to close down the losing business or who are interested in the scheme of amalgamations. In the respect of assessment procedure, he states that the tax executive in any organization will have to manage the tax affairs in a way that the assessment does not suffer any infirmity and assesses are not subjected to the penalty etc. For any fault and lapse, he recommends keeping in mind the following points.

1. The return of income should be submitted on or before due date.
2. It should be complete in all respect.
3. Advance tax and tax on self- assessment must be paid correctly to the return of income should be submitted on or before escape the rigors of penal interest.
4. Proper form has to be used.
5. In case of reassessment or rectification of mistake, care should be taken to see that the proceeding initiated by the department is not time based.

He has also presented the scope of tax planning related to the title appeals and revision, deduction of tax at source and refund of tax. Although this book is mainly concerned with direct taxes laws and practice, this has tried to present the tax incentives, and tax planning by different aspect, (Prasad; 1996)

Poudyal (1998) has published a book entitled, “**Corporate Tax Planning**”. He has described about the various tax incentives such as tax holiday, set off and carry forward of losses, depreciation allowance, amortization of preliminary expenses, export incentives, tax free interest and dividends exemption of interest on unpaid income tax , incentive for listing in Nepal stock exchange.

He has found that the tax incentives in the form of tax concessions, exemptions and deductions have been an important feature of the Nepalese corporate tax system. These incentives have been introduced from time to time to promote economic growth by mobilizing savings and their investments according to planned priorities of HMG of Nation.

He has also compared the tax incentives prior to and after the passing of industrial enterprises act 1992. His comparison shows that the industrial enterprises act 1992 has given more incentives to industries then prior act (Poudyal; 1998)

Tiwari (1999) has written a book entitled, “**Income Tax System in Nepal**”. He has described income tax and its concept, its system in Nepal, taxable income, industrial enterprises act 2049, computation of income tax from various sources etc. some example to compute the income tax from the various sources of income have presented in this book. The legal provision of the income tax act 1974 have presented in detail. This book is descriptive in nature and not the analytical one.

Dhakal (2001) has written a book entitled, “**Income tax and house and compound Tax Law and practice**”. This book has based on the syllabus of the BBS and MBS level of T.U.

Various provisions related to the income tax under income tax act 1974 has described in this book. The incentives given to industries by industrial enterprises act have also described in this book. Clear numerical examples have presented to derive the taxable income from the various sources of income. This book has also included the house and compound tax and value added tax (Dhakal; 2001)

Kandel (2001) has published a book entitled, “**Corporate taxation; issues of Nepalese perspective**”. He has included a chapter ‘tax incentives’ in this book and presented the introduction of tax incentives, history of tax incentives rational of tax incentives, types of tax incentives, tax Incentives in Nepal, effect of tax incentives on investment (with findings of empirical studies) etc. He has found out that the emergence of tax incentives system in



most of the countries of the world is mainly responsible for the frustrating low rate of investment in developing countries. The developed countries like USA and UK introduced the tax incentives like investment allowance; investment tax credit and investment grant system to enhance their investment rate. Developing countries have one step ahead and introduced a full exemptions system called tax holiday to accelerate their rate of investment and in turn in growth rate. According to him, the tax incentives system has distorted the tax base instead of improving the investment environment of the developing countries because the tax incentives to one industry compelled to levy higher tax to other industries.

There is debate between the taxpayers whether the depreciation should be based on historical basis or on the replacement basis, so some countries have given choice to among these. But almost all of them have accepted that accelerated depreciation is one of the major tax incentives. Most of the countries have also provided the loss adjustment facilities as tax incentives but the condition of the government is misery regarding the loss adjustment facilities. Since the loss adjustment periods of the most of the countries have only 3 or 4 years, the writer has concluded the government's partnership with business houses was lopsided giving more benefit to the government. Nepal is also very conservative in this regard.

Due to the discretionary power of tax officer to recognize losses, this facility is also only in paper. (Kandel; 2001)

Kandel (2003) has written a book entitled "**Tax Laws and Tax Planning**". The main objective of this book is to meet in conformity with the MBS level syllabus of T.U. He has presented the numerical examples to derive the taxable income and tax liability. Another book entitled "Nepal ko bartaman kar byabastha" by the same writer in the same year has been published. This book is based on the course of BBS level (Kandel; 2003)

Bhattarai and koirala (2011) have written a book entitled "**Taxation in Nepal; With Tax Laws & Tax Planning**". This book has been designed in conformity to the MBS level students of T.U. This book has descriptive in

nature and presented various examples to derive the taxable income and tax liability from the various sources. In this book some examples regarding how the tax can be planned under ITA 2058 has been presented. Various provisions provided in income tax act about tax laws and tax planning has been described in book. This book will provided knowledge for the entire tax related person about tax system in Nepal.

## **2.2 Review of Theses and Reports:**

Oza (1972) Presented an article "**Corporate Tax - Planning and Managerial Decisions**" which was published in "Indian Journal of commerce" in 1972 A.D. In the article, he analyzed various aspects of corporate tax planning and managerial decisions. He showed mainly about tax evasion and how tax executive reduce the tax-cost burden. His conclusion was no business should bear tax cost more than required by the law. But, due to ignorance about and complexities of the law there are a number of companies which are paying more than the required taxes. There are many cases as discussed in this paper where the management may help the company in minimizing the tax-cost. It is, therefore, suggested that the big companies should set up their own tax department for corporate tax planning purposes. The small companies should employ tax consultants to assist the management in forming policies tax-cost oriented. The tax executive should formulated the policies in such a way that it may be adopt able to future changes in tax payers situation and it should not expose the tax payers to the unbearable risks.

Agrawal (1978) has conducted a study entitled "**Resource mobilization for development; the reform of income tax in Nepal**". It was identified that a substantial resource gap was in revenue structure in Nepal ( Tax Administration was suffered from a number of interacting and interrelating problems which has badly affected its productivity) he conducted a primary resource in various aspects of income tax and also explained mathematically the untouched side of elasticity of income tax and its future projection. The main reason for this resource gap has been identified as the low sided growth of

government revenue generation from domestic resources as compared to government expenditure. Though the study has been identified as the first comprehensive scientific study in the income tax in Nepal and useful for the research purpose from various aspects, they are partially irrelevant at least at present context.

He has also discussed about the historical background of income tax, legal and administrative aspects and role of income tax in Nepal. He has also calculated the elasticity and buoyancy of major Nepalese taxes using the double log linear model. Projection of income tax and resource gap has been made using similar linear model. He has also described the fiscal policy, income tax legal provision, administrative aspect of income tax and calculated the elasticity and buoyancy of income tax. His major findings are related to the problems of income tax and those are inefficient for tax administration, tax evasion, lack of integrated education ( i.e. Knowledge, assistance, guidance and counseling etc) in the tax system (Agrawal ; 1978).

Pandey (1978) has presented a dissertation entitled “**An Analysis of income Tax in Nepal**”. His analysis has focused towards the contribution of income tax in the different revenue such as tax revenue, total revenue etc. His analysis has not covered the industrial aspect of income tax but he has recommended measures for increasing the revenue from income tax so as to mobilize more resources to increase the economic status rapidly. He has recommended scrapping the system of income tax holidays to the industries. (Pandey; 1978)

Singh Suwal (1981) has conducted a study entitled “**income tax system of Nepal**”. In this study, she described and examined various problems in Nepalese tax system, important of income tax in solving the financial problems in Nepal and economic effects of income tax on production and trend of income tax. The problem noted by her are the absence of clear and comprehensive definition of income, low paying capacity and tax consciousness, high tax rate corruption etc. Her suggestion was to establish for collection of income tax in Nepal. Her conclusion is that the income tax plays

vital role in the equal distribution in come if it is properly administered but in Nepal proper administration is lacking. (Suwal; 1981)

Agrawal (1984) has presented a report to Ministry of finance entitled, **“Direct Tax Reforms in Nepal”**. In this report, he has shows the maximum dependency of Nepal in foreign aid and loan. The increasing trend of foreign aid is not good symptom to this country since growth rate of the direct tax has been slowed than the growth rate of total revenue and total taxes. He has recommended to reduce the dependency upon foreign aid and to emphasize on proper tax administration. Self- assessment is the important measure to increase the tax collection. He has also recommended levying tax on capital gain, (ITA 2058 has levied tax in capital gain). (Agrawal; 1984)

Koirala (1985) has presented a dissertation entitled **“Tax incentives and industrialization”**. His study is based on empirical investigations. Separate questionnaires have been developed for both the industrialist and policy makers. The coverage of the questionnaires is limited. Only five questions are there in each group and 12 respondents have responded in each group. He has not done any secondary investigation. He has not studied tax incentives under the income tax but has tried to find out the over all impact of the limited tax incentives to the industries on the basis of his empirical investigation.

His findings are that the tax incentives have important role in the process of industrialization of industry but the tax incentives alone is not sufficient enough to the industrialization process of this country. Various other incentives are complementary to the tax incentives. Effective combination of them would get the desire results.

His first question for both groups is about the advantage of the tax incentives to industries on which both the tax policy makers and the industrialist have given positive responses but they have not been strongly supported. His second question is related to the provision of tax exemption in the industrial policy. The entire respondents have positively responded to this provision. Next question is about the 3years tax holiday to the industries, which

establish in the backward areas of the country. His study has shown that the impact of the 3years provision is not so much effective.

Another question is about the effectiveness of the tax credit of 1% sales given to the training expenses to the labor employed by the industries. His finding is that it has not so affected the industries labor skills. Next question is about the effectiveness of tax incentives to attract the foreign capital in industries sector of this country. The major respondents have responded it as fair. His last question is about the implementation side of the tax incentives to industries but the result is contradictory in the policy makers and the industrialist. Most of the tax policy- makers have responded that the tax incentives are implemented well but the industrialists have responded it negatively. He has tested the hypothesis whether the view of the industrialist and the policy makers is same or not. The test have supported that the view of both groups is same except in the question of implementation.

His findings about the tax incentives program is a good measure to promote industries in the developing country like Nepal. But the incentives related to the diversification of the industries in the back ward area of the country have nominal effect, because there are other factors that could play vital role more than the limited tax incentives. These factors may be the infrastructure facilities, availability of resources etc. He has found that the tax incentives measures are the good means to attract the foreign investment.

He has suggested the policy makers to know the view of the industrialists in respect of the 3 years extra holiday provision of the act and take a corrective action to attract them in the areas. But he has not recommended how they can be attracted to those areas. His view is that both the policy makers and the industrialist should go side by side to overcome this problem. He has mentioned that labors are not only the assets on industries but also the assets of this country. So they should be provided incentives for their training. To utilize the labor incentives, awareness in labor is necessary. So labors awareness program should be provided that could pressurize the

industrialist to utilize the tax credit facilities. Other wise they do not utilize the tax credit facilities because they think that skilled labors turnover heavily.

He has pointed out the need of the monitoring system to know the impact of the tax incentive to the industries, which could find out the causes of the inefficiency of the tax incentives to take the corrective actions required. (Koirala; 1985)

Bhattraï (1995) has made a draft entitled “**Income tax facility provided by industrial enterprises act 2049**”. His opinion is that the facilities provided by the industrial enterprise act 2049 are not beneficial to the small industries. The deductions allowed to the modernization of industries such as pollution control devices, technology and product development, sales promotion expenses etc have protected the large industries only. The expenses such as advertisement, entertainment, hospitality etc have created rude income tax, since these facilities are given in the same manner to all kinds of industries. According to him, the industries are to be advertised highly where as other not. So the equal treatment to industries as trading business is not favorable. The provision related to the tax exemption facilities to the reinvestment income of the industries was favorable to the industries related to alcohol, tobacco etc. because they have reinvested their income and go the tax exemption facilities (Bhattraï 2050 B.S.)

Kayastha (1993) has written an article on ‘Rajaswa’ entitled “**problems and prospects of resource mobilization through direct taxation in Nepal**”. He has shown the Nepalese taxation structure. The dependency of Nepalese government revenue is high on in direct tax and none tax revenue. He has pointed out the collection process suffers from leakages and loopholes, which are also because of discretionary powers and authorities as government against high social obligation and high cost of living index. He has shown the urgency of widening the tax base to increase in the government revenue and suggested to improving the tax administration by using following measures:

- Train and develop the staffs of tax administration.
- Collect the necessary information and keep well records.

- Audit the accounting records in time.
- Monitor the industries and trade.
- Reform in tax rates, rules, regulation and budget.
- Widen the tax base (Kayastha; 1993).

Pant (1996) has presented a dissertation entitled “**A study on income tax management in Nepal**”. He has studied the role of income tax in national economy and income tax management in Nepal. His dissertation is based on the empirical study. He has found out that the lack of managerial efficiency is the major problem of income tax system. He has focused the managerial aspect of income tax management and suggested to increase the exemption limit. He has also suggested levying tax on agricultural income and capital income. (The new ITA 2058 has levied the income tax in Nepal”. He has not studied the incentives and facilities to industries. (Pant; 1996)

Poudyal Khattry (1997) submitted the Ph. D. thesis entitled "**corporate tax planning in Nepal**". This thesis report was aimed to examine the implication of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He address that the tax planning should be considered while making corporate planning and so companies should set up separate tax section to get maximum benefit of provision provided by tax law. However, tax assessment under the best judgement blocked the application of tax planning in corporate planning. He recommended that tax incentives should be given to non-industrial companies too, and tax rate should be differentiated for resident and non- resident companies

Pradhan (2001) has presented a dissertation entitled “**Contribution of income tax from public enterprises to public revenue of Nepal (With reference to Nepal Telecommunication corporation)**” she has found that the contribution of tax revenue in government revenue is 77% in the income year 1998/99 and the contribution of indirect tax revenue in total tax revenue is 74% in the income year 1998/99. The contribution of the tax revenue in GDP is

2.37% which is the lowest contribution in the SAARC countries except in Bangladesh. Share of Nepal telecommunication corporation (at present Nepal Telecom) income tax is 11.1% in the income year. Her suggestion regarding income tax system are to reward the efficient and honest persons, to give education about income tax to the tax payers and tax officers, to motivate the person to make strict action to the corrupted persons, to increase the public participation in tax matter, to reduce the time period of the tax assessment and to settlement of tax commission. She has not given any suggestion regarding the tax incentives and facilities of Nepal telecom. (Pradhan; 2001)

Poudel (2002) has presented a dissertation entitled **“In come taxation in Nepal, a study of its structure and productivity”**. Her study has focused the structure of income tax, its elasticity and buoyancy, and role of income tax administration in Nepal. She has found that the contribution of income tax in GDP is lowest in the SAARC countries which has shown the poor condition of Nepalese tax system. The share of indirect tax revenue in the tax revenue is more than the double of direct tax revenue. She has blamed that income tax procedure of Nepal is based on the traditional approach. She has further suggested for broadening the income tax base, reforming the tax administration, and implementing the VAT, establishment of the standardized accounting system. She has not studied the tax incentives and facilities to industries. (Poudel; 2002)

Pallimagar (2003) has presented a dissertation entitled **“income tax in Nepal: A study of exemption and deduction”**. His findings are that the deduction facilities provided by the ITA 2058 have myopic vision. The government is not liberal enough to give the sufficient deduction facilities which are important for the well- being of the nation such as pollution control cost, resource and development, repair cost and improvement cost etc. and some cost like depreciation allowance are far from the realities. The loss adjustment procedure is not sufficient enough to attract the industries. He has further found that the incentives and facilities given to encourage the establishment of industries in certain areas are not effective. They have



vanished or changed names ownership or place of the business when the tax concession facilities expired.

In case of in come tax administrations his findings are that the problems regarding the tax administration are due to lack of trained employees, shortage of income tax experts, lack of public participation, defective income tax, faulty origination etc.

His suggestions regarding the industries are that the incentives should have been increased because they are not sufficient to attract industries in the remote areas. The incentives may be in the form of investment allowance of 25% per annum on the depreciable asset on straight- line basis or accelerated depreciation and a special package for the remote areas should be introduced. Research and development expenses should be wholly exempted because research is the backbone of industrial development. Interest of the tax exempt control entity should be wholly allowed to deduct. (Palli Magar; 2003)

Shakya (2004) has presented a dissertation entitled “**A study on income tax act 2002**”. He has studied the income tax act as a whole. However he has not studied the tax incentives and facilities to industries. His major findings are that the income tax is the suitable means of government revenue and its contribution for economic development and it should have been mobilized. Income tax has composed by six types of taxes and the share of individuals is half of the total income tax revenue.

He has suggested for effective implementation of income tax act; to give tax education , to make the auditing compulsory, for plugging the loopholes existed in the tax act, to provide incentives to the administrators, and to allow the PCC cost wholly etc. (Shakya; 2004)

Karki (2005) in his thesis "*Theory and Practice of Tax Planning in Nepal*" has tried to make an overview and conclusion supporting to the objectives, research methodology and findings as follows:

## **Objectives**

- i. To analyze the existing problems of income Tax Act, 2058 with respect to language, section training and administration.
- ii. To study the concept of tax planning.
- iii. To examine the application of tax planning in Nepal.
- iv. To study the gap between theory and practice of tax planning in Nepal.
- v. To analyze the tax planning practices followed by Nepalese companies.
- vi. To provide suggestion to Nepalese companies/ business houses to use tax planning based on the above study.

## **Methodology**

This study is concerned with the tax planning in Nepal. It is the study of corporate tax planning based on the information collected from 20 trading companies and 20 production and fertilization companies. This study also includes 5-finance Company and 5 insurance companies.

This study is based on primary and secondary data. Primary data has been collected mainly through questionnaire and interview, Field study visit, and mailing information of the respondents. Secondary data related to fixed assets, depreciation, capital structure, profit, and provision for taxes etc. published by Nepal Stock Exchange Ltd. Annual reports of the Ministry of Finance, Department of Industries, Economic Newspapers and Journals.

## **Findings**

Following are the major findings of the study:

1. Existing nature of taxable revenue in Nepal has still been in poor condition. It means that Income Tax 2058 has not been able to collect enough revenue according to the plan made on theory.
2. In fact, the concept of tax planning is technical analytical comparative and strategic to use in practical lives. So, the performance of tax planning depends on the skill, knowledge and experience of the manpower.

3. Even though taxpayers have accepted the application of the planning in Nepal, the taxpayers have not been regular for the proper utilization of tax planning.
4. There is a vast gap between theory and practice of tax planning in Nepal. No work could be implemented recording to plan and polices.
5. All of the company follow tax planning in respect of all the field study of their activities like operational planning, strategic planning and project planning, Otherwise, they could not develop their lives.

### **Suggestions**

Tax rate should be different for resident and non-resident companies like India, Germany, Belgium etc. and foreign companies are taxed at a higher rate than domestic companies.

1. Use of best judgement assessment (BTA) should be effective by tax officers.
2. Export oriented industrial companies should be entitled to partial exemption of export earning.
3. Tax rebates to Non-industrial companies' set-up in industrially background areas.

It is suggested that there should not be discrimination on the name of tax liability.

Lama (2009) In his thesis entitled "**A study on effectiveness of implementation aspect of Tax Planning in Nepal**" has made a deep study on Tax Planning regarding its effective implementation. People in developing country like Nepal tend to greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem of tax evasion. Because of this resources have not been mobilized efficiently and resource gap is increasing year by year in Nepal public finance. He has mentioned the following objectives and methodology for specific planning and recommendations:

## **Objective**

- a) To study the concept of tax planning.
- b) To examine the use of Tax Planning in Nepalese organization.
- c) To examine the implementation of Tax Planning.
- d) To provide suggestion to Nepalese organization to use Tax Planning.

## **Methodology**

This study is concerned with the effective implementation of tax planning in Nepal. Thus information concerning Tax Planning as a whole is taken out for consideration to reflect the real phenomenon. The sample size was determined to 20 persons out of the total population. This sample of 20 persons was selected through different groups of persons from manufacturing companies, trading companies commercial banks and insurance companies. Following are the major findings of the study:

## **Findings**

- a) The provision of best judgement assessment should be put to use in its true spirit.
- b) In addition to other financial and non-financial assistance, including incentives, to be provided by government and financial institution for the revival of sick industrial units.
- c) The taxpayers should pay the unpaid tax along with interest, similarly if the refund is to be made the taxpayers along with interest.
- d) Tax rebates to non-industrial company set of industrially backward areas.
- e) Different tax rates for residential and Non-residential companies.
- f) Every company should have separate tax section in their company.
- g) Need to change the tax administration system.

## **2.2 Research Gap**

There is gap between this research and previous researches. This research has tried to throw light on the relation of tax incentives with tax planning. Most of the previous researches have focused on the issue of income tax system, VAT, the contribution of various income, different government revenue, structure of government revenue and the contribution of income tax from various sources, tax structure etc. Almost all of them have indicated that tax administration is inefficient and there is high level of tax evasion as well as tax avoidance. Most of the researchers have suggested to improving the tax administration, increasing the contribution of income tax in resource mobilization and widening the tax coverage. But no body has studied on the issue of tax incentives and its relation on tax planning in the industrial sectors. Industries are the back bone of the economy and its growth play major role in the growth of the economy of Nepal. Research had to be conducted on that issue of tax system. But no one has studied about the incentives and the facilities to industries. No research has been done regarding legal provision provided by the ITA that widens scope of tax planning.

Therefore this research has been conducted to deal and discuss the matter of tax incentives and tax planning to fulfill the research gap by realizing its need. The researcher has conducted this unique research using both primary and secondary data. The tax incentives and facilities to industries provided by income tax have been studied and effect of tax incentives on tax planning is analyzed in this research.

## CHAPTER III

### CONCEPTUAL FRAMEWORK

#### 3.1 Meaning of Taxation

Taxation has been defined in various ways by different persons. The definitions given by the different persons are as follows:

- **Seligman** defines taxation as “compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred”.(Dhakal; 2058,1)
- **Adam Smith** defined tax as “A contribution from citizens for the support of state”.
- And, according to **Taylor** “compulsory payment to the government without expenses of direct benefit in return to the tax payer”.(Amatya; 2060,1)

From the definition mentioned above, it can be said that any compulsory contribution made by the public to the government without expectation of the corresponding benefit by the payer is taxation. Taxpayers do not expect any return for each tax paying. It is neither an expected amount nor a penalty.

Due to this compulsory nature, people have expressed different views in satirical ways about the taxation some say, “Nothing is certain in this world but death and taxes”; some say, “death and taxes are both certain ...but death is not annual”; while others say, “Death means stopping to pay tax”. Government could spend such amount to carry out development plans, to handle day to day administration, to maintain peace and security and to launch public welfare activities in the nation.

#### 3.2 Type of Taxes:

On the basis of impact and incidence the tax can be classified into two different broad categories:

- Direct tax
- Indirect tax

## 1. Direct tax

A direct tax is a form of tax paid by a Person on whom it is legally imposed. Direct tax cannot be shifted and it is collected directly by the government from the person who bears the tax burden. According to Dr. Dalton, "Direct tax is really paid by the person on whom it is legally imposed". (Amatya; 2062) The examples of direct taxes: income tax, property tax, vehicle tax, interest tax, Gift tax, Death tax, Expenditure tax, etc.

## 2. Indirect tax

An indirect tax is imposed on one person but partly or wholly paid by another. Indirect taxes are generally imposed on consumption of goods and service. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the payers easily transfer the burden on general consumer. (Kandel; 2003, P<sub>6</sub>) Examples include VAT, excise duty, import and export duty etc.

### 3.3 Objectives of Taxation

Tax is the main sources of government revenue. In every country, the largest part of the government revenue is raised through taxation. The government mobilizes its revenues through budget in daily administration, to maintain peace and security, development programs and public welfare activities. Thus, it has become a tool of social and economic policy for the government.

The main objectives of taxation are as follows:

- **Raising More Revenue:** The government needs revenues to perform various development and welfare activities in the country. So, the government imposes the taxes on person's income to raise more revenue.
- **To maintain the welfare State:** The government must perform different welfare programs, such as, education health etc. and should maintain

economic stability in the country. Thus, the government collects taxes from the different sector in order to perform such programs.

- **To reduce economic inequalities:** The government levies more tax upon high income group and mobilizes it to improve the economic conditions of low-income group. As a result, the economic inequalities will be reduced.
- **Reducing unemployment problems:** The government can reduce the unemployment problem by promoting various employment opportunities in the country. Industries established in remote parts of nation have given more facilities. So that, the unemployment problem can be reduced to a great extent through liberal tax policy,
- **To encourage production of essential goods:** Tax laws provide various incentives and facilities to the industry producing the essential goods so as to encourage their production.
- **Removing regional disparities:** Tax is one of the ways through which regional disparities can be minimized. The government provides tax exemptions or concessions for industries established in backward areas. As a result, the economic activities will increase in those areas and regional disparity will be reduced.
- **Boosting up the economy:** Tax serves as tools for promoting economic growth, stability and efficiency. Low rate of taxation during a business depression will accelerate more income to the people and help in raising demand and thus revive business activity. On the contrary, high rates of taxes may be useful to check inflationary pressure on prices.

From the above discussion, we can conclude that the tax has objectives of raising revenue.



### 3.4 Canons of taxation

A good tax policy should have certain principles or canons. Different economists have their own view regarding canons. 'Canons of taxation' were first developed by Adam Smith. Some major canons of taxation are as follows:

#### According to Adam Smith

- **Canon of Equity:** This canon of taxation is the canon of equality emphasizing on paying the tax on the basis of ability to pay. Tax should be levied on equal ground to all the tax payers having equal incomes.
- **Canon of Certainty:** Canon of certainty is related to the time, method, manner and quantity of paying the tax.
- **Canon of Convenience:** The time, place and manner of tax payment should be convenient and the language of tax laws should not be complex.
- **Canon of Economy:** The cost of collecting the tax should be very small. There should be minimum difference between the amount that people take out to pay tax and the amount that actually goes to the state treasury.

#### According to Bastable

- **Canon of Productivity:** This canon says that every tax system should be revenue productive, which means it should be taxed in that income which provides adequate revenue and the taxes that do not provide sufficient revenue should be withdrawn.
- **Canon of Elasticity:** The government can easily change the tax rate as per the need of the country instead of being rigid, tax rates should be made flexible to cope up with the changes in taxpayers' income, properties and transactions.

## **According to Other Modern Economists**

- **Canon of Diversity:** Tax system should not totally depend on one source of revenue. It should cover wide range of income sources. This principle says that tax should be levied on various stages and various sources.
- **Canon of Simplicity:** Every tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance.
- **Canon of Neutrality:** The tax system should not affect to the production and distribution aspect of the nation rather it should facilitate them. The taxes must not have any inflationary or deflationary effect on the economy.
- **Canon of Co-ordination:** This tax system states that there should be co-ordination among various taxes raised in the country. Therefore, coordination between central and local level government is necessary.

## **3.5 Tax incentives**

### **3.5.1 Concept of tax incentives**

Tax incentives to invest arise from the relaxation in normal taxation rules, which curtail the tax burden and thus increase the profitability of a particular investment activity. Tax incentives involve loss in the form of loss of revenue to the government but at the same time it result in increase in corporate savings and investment. (Poudyal ; 1998,26)

An income tax is a distance to save or invest and therefore, the incentive is to mitigate the distance. It may imply a partial or complete exemption from one or variety of taxes and special allowances for a certain periods to motivate the behavior of saver or investor. The main aim of tax incentive is to increase savings and to encourage and canalize the investment to the desired area of sector. (Kandel; 2001, 63)

A tax incentive reduces the tax burden of an organization thereby reducing the effective tax rates. The result is reduction in investment risks, more attractive public issue of equity share and enhancement in the borrowing capacity. The willingness to invest depends upon the after tax profitability of investment, while the ability to invest depends upon the availability of internal and external funds.

The necessity for offering tax incentives is felt basically for two reasons: stretching the scope of tax beyond its revenue objective to achieve certain socio- economic ends and to mitigate the adverse impact of high taxation on corporate savings and investment activities.

### **3.5.2 Historical Background of Tax Incentives**

Tax incentives system was introduced many decades ago as a method of mitigating the tax burden in investments. The use of depreciation many years ago is an example. Other types of investment incentives were also not introduced at once but gradually in different countries of the world. (Kandel; 2001, 63)

The first tax incentives system was introduced by UK in the form of the depreciation in the depression period of 1880s. The incentives were added in the form of carry forward of losses in 1890, other incentives in 1944 and cash grant system in 1967. Mexico introduced the tax incentives system in 1939.

The tendency of providing tax incentives was introduced before the Second World War but it became popular after the Second World War and widely spread in the world. Tax incentives became so much popular that the competitions between the developed and developing country became intensive to attract investment.

One after another, other country also introduced the tax incentive system to attract the investment in various sector. Philippines introduced the tax incentive in the year 1946. Puerto Rico introduced in 1946, India in 1948, Malaysia in 1958, Thailand in 1960, Ghana in 1950.

The greatest economic country of the world USA introduced tax incentives in the form of investment allowance in 1954. The Asian economic country Japan introduced the tax incentives system in the year 1950.

Tax incentive system become very much popular in the decade 1950s, India had even introduced committees to study the scope of tax incentives to the productive industry. (Kandel; 2001, 64)

### **3.5.3 Tax Incentives in Nepal**

Tax incentives system in Nepal has introduced first time by the Industrial Enterprises Act, 1961. This act was the first Industrial Enterprises Act. The first Industrial Enterprises Act had given the following incentives to industries:

- Ten years tax holiday to newly established industries
- Tax rebate of 25% of the tax liability on the discretion of His Nepal Government to the operating industries.
- Full and partial rebate of the tariff for exporting goods and importing machineries, parts and raw materials etc.

The industrial enterprises act 1974 had given various incentives to industries, which are as follows:

- Tax holiday of up to 18 years to the industries established in the different parts of the countries.
- Investment and depreciation facilities to extension and modernization of industries.
- Relief of excise and import duty etc.

The third Industrial Enterprises Act was enacted in the year 1981. This act had given the following incentives to industries.

- Tax holiday up to 12 years to industries
- Income tax rebate of up to 50% for exports
- An allowance of 15% to the new investment
- Levy to import of machinery, spare parts and raw materials was very nominal. It was only 1% of the imported value.

- Exemption of excise duty to different types of industries
- Exemption of sales tax to cottage industry in import of machinery, spare parts etc. and domestically produced goods.

In comparison to above acts the Industrial Enterprises Act 1992 has given more tax incentives. Those incentives are as follows:

- Maximum rate of tax to be charged to industries as 20%
- Completely exemptions of income tax, sales tax, excise tax etc. to the cottage industries.
- Additional depreciation facility of 33.33% to the industries.
- Deduction of 10% of gross income for research and technology development expenses.
- A rebate of 10% to industries not related to tobacco, alcohol, sawmill and katha industries using 100% of Nepalese labour and 80% or more of Nepalese raw material.
- Investment allowances of 40% of extended fixed assets investment if the firm increased its capacity of line of production more than 25% of the original
- Deduction of 50% of pollution control expenditure from taxable income within 2 years.
- Provision of different types of sales tax, excise and custom rebate to industries.
- Sales tax and excise rebate up to 13 years to the fruit processing and fruit based wine producing industries located in remote areas.
- Besides these incentives the amendment in the act in year has given the following facilities to industries.
- A holiday of 50% to the national priority industries related to the construction of road, bridge, tunnels, ropeway, flying bridge, trolley bus and tram for the period of ten years
- A holiday of 50% to the industries other than the above, for a period of 7 years.

- Tax rebate of 30%, 25% and 20% to the industries established in the remote, undeveloped and underdeveloped areas specified in the appendix 3 of Industrial Enterprises Act 1992.
- No double taxation on raw materials used by industries.

Some provisions related to industries under this act are curtailed down by the amendments in this act.

Among these the full tax holiday, exemption on dividend income and exemption in export income etc. are some examples.

### **3.5.4 Types of Tax Incentives**

There are various types of tax incentives, among them some of the tax incentives are briefly described below.

#### **3.5.4.1 Investment Allowance**

Investment allowance is a facility given to encourage the investment in the industries. It provides the facility to deduct the some part of investment from the taxable income of the organization.

#### **3.5.4.2 Investment Tax Credit**

Investment tax credit is also a facility given to prospective industrialists so as to encourage investment. It provides facilities to deduct some part of investment from the tax liability.

#### **3.5.4.3 Tax Holiday**

The investment allowances may be favored by existing industries companies, whereas tax holiday is mainly concerned with new companies in the industrial sector. Such a relief on tax is applicable on profits earned from new investment and it will automatically terminate after the holiday period. (Poudyal; 1998, 27)

Tax holiday refers to complete or partial exemption of earnings for a specified period of time especially in the beginning.

It is exemption type of fiscal incentive. It may be partial or full. Especially in the later years it becomes partial. It is assumed that after the end of holiday period, the firm pays full tax and company is not allowed to transform it into a new company. (Kandel, 2001, 68)

Tax holidays have certain benefits over other types of investment incentives. It becomes more beneficial to those profitable firms, which have no other forms of incomes during tax holiday period. Thus, it concentrates on new business organizations. (Kandel, 2001, 69)

So, the tax holiday is full or partial exemption in the tax liability for the organizations (especially for new organizations) to relief the investment cost and to promote them.

#### **3.5.4.4 Accelerated Depreciation**

Accelerated depreciation mean higher depreciation in initial years and gradually decreases in later years. It includes allowing the cost of fixed assets to be depreciated within a shorter period than its service life, whatever is the method of charging depreciation. (Kandel; 2001, 67)

Accelerated depreciation helps to reduce the tax burden of the industries in the initial years and shifts it to the later years. This is because the expenditure of the industries in the initial year wills more than the actual expenditure, which reduces the taxable income of the organization and ultimately the tax liability of the organization.

#### **3.5.4.5 Set off and Carry Forward of Losses**

If there is loss under one source and profit under another source of the same head, the former is set-off against the latter. Similarly, when incomes from different heads are aggregated, the loss under one head of incomes is set-off against the income of another head. If the aggregated amount of a year turns

into net loss, this loss can be carried forward in future year(s) for set-off against the income of subsequent years. (Poudyal; 1998, 31)

If there is income in any income year, organization has to pay income tax but if there is loss the organization has to bear all the burden of losses without any compensation, which discourages in investment. Therefore, the income tax provides loss adjustment facility so that the organization having losses in previous income year can relief by adjusting the losses from the income of the succeeding income year(s). Similarly, the inter-head adjustment facility also provides some relief to the loss of one income head by adjusting the losses in another head's income.

This loss adjustment facility is different in different countries. This facility can be adjusted as per the requirement of incentives. If the investment required for any industry is higher than the chances of losses in initial year will be high so, relatively long carry forward period may be provided in these sectors.

#### **3.5.4.6 Incentives for Development of Specified Areas**

Various tax incentives can be provided to the development of the specified backward or rural areas. The incentives may be in the form of tax rebates, tax holidays, investment allowance, and investment tax credit etc. Those incentives provided to the rural areas for encouraging investment in those sectors so, the economic status of these areas increases.

#### **3.5.4.7 Incentives for Research and Development**

Research and development is the backbone of economic development of any country. Without research new invention may not be possible. But the research needs lots of amounts and is higher burden to the researcher. Therefore, a small organization could not invest in research and development due to lack of incentives. Income tax law provides some incentives in the form of deduction facilities to this expenditure and that would help to recoup the



entire investment quickly in the earlier years, which encourages the expenditure in research and development.

#### **3.5.4.8 Incentives to Install Pollution Control Devices**

Development of economy is almost impossible without the development of industries but the industries waste pollutes the environment. Organization needs the pollution control devices to reduce the environmental effects but it needs higher amounts of investment. So, to use the pollution control devices certain facilities may be provided. It may be in the form of deduction facilities to this expenditure.

#### **3.5.4.9 Export Incentives**

Some tax facilities may be provided to the organizations that export its product in abroad. The tax incentives may be in the form of tax rebate and tax concession in the income from export, market development allowance, customs and excise relief, export credit, tax exemption in the income from the export of technical know-how etc.

#### **3.5.4.10 Amortization of preliminary Expenses**

While commencing a business, high amount may be expended in the form of preliminary expenses, which will have long-term effect in the business such as high amount of advertisement expenditure etc. Tax incentives may provide to write off this type of expenditure within a certain period of time.

#### **3.5.4.11 Employment Incentives**

Generally in underdeveloped and undeveloped countries have the problem of unemployment so; certain tax incentives are provided to the industries that provide employment to the substantial employees. The incentives may be in the form of tax rebates and concessions.

### 3.6 Specimen for Calculation of Income from Industry as per ITA 2058

There is no separate format for calculation of income from industry but the same format for calculation of business income is to be used in calculation of industry.

The summary of the format for calculation of income from industry is given below.

#### (A) Computation of Income from Business

Particulars	Amount
<b>Inclusions (Amounts to be included)</b>	
Service fees (Section 7.2.a)	
Amounts derives from the disposal of trading stock (Section 7.2.b)	
Net gain from the disposal of the person's business assets or liabilities (Section 7.2.c)	
Amounts treated as derived from the disposal of depreciable assets (Section 7.2.d)	
Gift received by the person in respect to the business (Section 7.2.e)	
Amounts derived as consideration for accepting a restriction on the capacity to conduct the business (Section 7.2.f)	
Amounts derived from investments that are effectively connected with the business (Section 7.2.g)	
Amounts to be included by reason of change in the accounting system (Section 22.6)	
Amounts to be included by reason of timing (Section 24.3)	
Recovered amount of bad debts deducted earlier (Section 25.1)	
Amounts to be included as per contract completion basis in the case of a long term contract (Section 26.1)	
Difference of actual interest and interest as per market rate in case of a soft loan (Section 27.1.d)	
Amounts paid to third person instead of actual payee (Section 29)	
Amounts derived as compensation (Section 31)	
Others amounts to be includes in profit and gains	

<b>(A) Total Inclusions</b>	
Deductible Expenses: General deductions (Section 13) Interest (Section 14) Cost of trading stock (Section 15) Repair and improvement costs (Section 16) Pollution control costs (Section 17) Research and development costs (Section 18) Depreciation (Section 19) Deductible reserve (Section 59.1) Other than mentioned above	
<b>(B) Total Deductible Expenses</b>	
Deductible Losses: Unrelieved losses from other business of this year Unrelieved losses from business of previous years	
<b>(C) Total Deductible Losses</b>	
<b>(D) Total Deduction (B+C)</b>	
<b>Income or loss from the business (A-D)(in case there is no loss in this row, this amounts is treated as assessable income from business)</b>	

**(B) Computation of Taxable Income**

Assessable income from Employment Assessable income from Business Assessable income from Investment`	
Total assessable income Less: Contribution to recognized retirement funds (as per tax law) Less: Donation (as per tax law)	
Taxable income	

## **3.7 Tax Planning**

### **3.7.1 Concept of Tax Planning**

Planning is the way of making any task easy and systematic. Planning is an important feature of all business enterprises whether it was big or small, new or old, private or public. So, planning is necessary for the survival and growth of a company. The need for having a formal planning system in a company arises from the necessity of management to conduct the operations of the company efficiently and effectively.

Tax planning refers to the planning of future activities in a way that reduces the Tax liability. The tax law provides certain concessions, rebates and allowances to taxpayers in order to enhance a healthy business environment in the country. Tax planning can be defined as an arrangement of one's financial and economic affairs by taking complete legitimate benefits of all deductions, exemptions, allowances and rebates so that tax liability reduces to a minimum. Thus, all such arrangements by which the tax laws are fully complied with and fulfilling the legal obligations are tax planning. So, tax planning means the use of all these facilities given by the government to reduce the tax liability. It is the scientific planning of the companies operations in such a way as to attract minimum liabilities of tax or the postponement of tax liability for the subsequent period by availing of various incentives, concessions, allowance, rebates and relieves. It is not only the planning of infrastructure of the business and industries but also the planning of its various projects from time to time and its day to day activities so as to acquire the maximum facility as per the existing law of the country. In short, it is a judicious use of tax incentives provided by the government. The correct approach in regard to tax planning has been formulated by Ranga Nath Mishra, a supreme court judge of India, on the case of McDowell and company Vs CTO says "Tax planning may be legitimate provided it is within framework of law, colourable devices can not be part of tax planning and it is wrong to encourage or entertain the belief that it is honourable to avoid payment of tax by resorting to dubious method".

According to Mishra, the legitimate device to reduce tax liability is tax planning. If there is use of unnecessary means to reduce tax liability it can not be taken as tax planning.

In the conclusion, it can be said that tax planning is a scientific planning of company operations. It is economic, legal and ethical activity, it is the use of various incentives, concessions, allowances rebates etc. and it is an activity related to future.

### **3.7.2 Significance or Objectives of Tax Planning**

The objectives of Tax planning can be stated as follows:

- a. Reduction of Tax liability
- b. Minimization of litigation
- c. Productive investment
- d. Healthy growth of the economy
- e. Economic stability

### **3.7.3 Features Tax Planning**

The features of Tax planning are given below:

- a. It is future-oriented. It is concerned with activities to be undertaken in future.
- b. It is legitimate device of minimizing tax burden. Tax law encourages using this device.
- c. It is legal, ethical and economic device.
- d. It is genuine use of facilities provided in the tax law.
- e. It establishes a good relationship between the government and business community by enhancing a healthy business environment in the country.
- f. It is universal in nature. It means all the business organizations use tax planning
- g. It is a use of dignified facilities
- h. It is a use of expertise to get consciously given facilities.

### **3.7.4 Tax Planning Vs. Tax Evasion**

Tax planning and tax evasion are the way of reducing tax liability. But they are different on the following grounds:

- Tax planning is legal whereas tax evasion is illegal way of reducing tax liability.
- Tax planning is an ethical practice whereas tax evasion is an unethical practice.
- Tax law encourages tax planning but discourages tax evasion.
- Tax planning enhances healthy economy of a country whereas tax evasion creates unhealthy economy.
- Tax planning is future-oriented whereas tax evasion is related to past activity.

### **3.7.5 Tax Planning Vs. Tax Avoidance**

Tax planning and tax avoidance both are the legal ways of minimizing the tax burden and both need expertise in the tax law. The differences between tax planning and tax avoidance can be as follows:

- Tax planning is a genuine use of facilities provided in the tax laws whereas tax avoidance is taking advantages of the loopholes and lacunae in tax provisions.
- Tax planning is an ethical practice where as tax avoidance is an unethical practice.
- Tax law encourages the practices of tax planning where as it discourages tax avoidance.
- Tax planning does not violate the spirit of tax law where as tax avoidance violates the spirit of the tax law.

### **3.7.6 Tax Management**

Tax management is an internal part of the tax planning. Tax management play vital role in claiming the allowances, deductions and tax

exemptions. Tax management also protects as assesses against penalty and prosecution by discharging tax obligations in time.

Tax management is the efficient, systematic and timely handling of tax matters to save maximum amount of time, talent and treasure to avoid worry, tension, stringent penalty and prosecutions. It is maintenance of records and documents, filing of tax returns in time and performing other tax related duties efficiently. Tax management is looking as the similar to tax planning but there are differences between tax management and tax planning which are as follows:

- Tax planning saves tax, where as tax management saves all the time, energy and money.
- Tax planning is the decision making process, whereas tax management is an administrative work.
- Tax planning needs extensive knowledge of tax laws. Tax management does not need such extensive knowledge of tax laws.
- Experts do tax planning, whereas ordinary staffs do work related to tax management.
- Tax planning is the major work. Tax management is subsidiary to tax planning.

### **3.7.7 Importance of Tax Planning**

Tax planning has certain importance and the major importances among them are as follows:

- 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.

The subsidiary advantages of tax planning are as follows:

- It helps in increasing working capital.
- It helps in analysis of risk.
- It helps in an increase of profit distribution.

- It creates easiness in day to day work.
- It enhances the investment opportunity.
- It helps in upgrading technology.
- It creates good business environment.
- It helps in development of manpower.

### **3.7.8 Scope of Tax planning under Income Tax Act, 2058**

Income Tax Act (ITA), 2058 has reduced the scope of tax planning, to a great extent, by abolishing all the tax related provisions under Industrial Enterprise Act, 2049 and other respective acts. The new act has widened the tax base by bringing in all the incomes into tax bracket and it provided some avenues for tax planning. Under act, tax planning can be divided into two heads which are as follows:

- Long-term or strategic Tax planning
- Short-term or operational Tax planning.

#### **3.7.8.1 Long-term or Strategic Tax Planning**

Strategic Tax planning is normally for a longer period and it may not pay off immediately. As per ITA 2058, the areas for strategic tax planning can be as follows:

##### **i) Nature of Business:**

The taxpayer can minimize tax burden by selecting a business of low tax rate. For example:

- Special industries (except liquors and tobacco related) should pay income tax at 20%.
- Bank, finance companies, general insurance companies, liquors and tobacco industries, industry should pay income tax at 30%.
- Other firms i.e., private limited, partnership firm should pay income tax at a flat rate of 25%.



- Agricultural income received by an individual is exempt from income tax.

Similarly, loss recovery period also differs as per the nature of the business. For examples:

- Business loss can be carried forward up to next 7 income years.
- Under Nepal petroleum Act 2040, loss of an entity conducting petroleum business can be carried forward up to coming 12 years.
- BOT/BOOT project can carry forward losses for coming 12 years.

An investor can reduce the tax liability by selecting a suitable business that enjoys maximum treatment of losses.

## **ii) Form of Organization:**

ITA, 2058 has provided different types of tax facilities to different form of business organization and has imposed different tax rates. For examples:

- Proprietorship forms get tax exemption facility but a company and partnership do not get any exemption.
- Progressive tax rate is applicable to proprietorship firm but fixed tax rate is applicable to a company.
- A company should pay double taxation to the government whereas a proprietorship should not pay double taxation.

## **iii) Location:**

The industries established in backward areas get more facilities than the industries established in developed ones. ITA, 2058 has provided various concessions and rebates for the business established in different locations. For examples:

- Special industries established in remote, undeveloped or underdeveloped area should pay tax at 70%, 75% and 80% of the applicable tax rate respectively up to ten income years.

- Individual working in remote area A, B, C, D and E can get an additional exemption of Rs 30,000, Rs. 24,000, Rs. 18,000, Rs. 12,000 and Rs. 6000 respectively.
- Business having annual transactions up to Rs. 12,00,000 and income of Rs 1,20,000 should pay Rs. 2,000, Rs. 1,500 and Rs. 1,000 as tax if established in metropolitan or sub-metropolitan cities, municipalities and anywhere else in Nepal respectively

**iv) Capital structure Decision:**

ITA, 2058 has made different provisions regarding the return of capital.

For example:

- Interest is fully deductible in case of borrowed funds whereas dividend is not deductible as an expense.
- Expenditure incurred while borrowing loan is an allowed for deduction.
- Raising funds through equity/preference shares or retained earnings are without strings and do not involve regular outflow of cash by way of interest.

**v) Size of Business:**

Selection of suitable size of business can also help in tax planning. For example:

- Business firms with annual turnover up to Rs. 12,00,000 and annual income Rs. 1,20,000 they fall within presumptive taxation. They are required to pay Rs. 2,000, Rs. 1,500 and Rs. 1,000 if they are located in metropolitan or sub-metropolitan, municipality and other areas respectively.
- A special industry providing direct employment to 600 or more Nepalese citizens throughout the year is taxed 90% of applicable tax rate on that year's income (i.e 90% of 20%=18%)

**vi) Merging of Business:**

Inclusion of non-industrial (i.e trading company) unit into industrial unit may be helpful in minimizing the tax liability. A industrial unit (except liquors and tobacco) pay tax at 20% whereas non-industrial units pay tax at 25%. Thus, merging of trading company into an industrial company may help to reduce tax liability. Similarly, merging of loss-making units to profit-making units is also helpful in tax saving. So, the loss of making unit can be adjusted to the profit of profit-making unit.

**3.7.8.2 Short-Term or Operational Tax Planning**

As per ITA, 2058 areas for short term or operational planning are as follows:

**i) Acquisition of Fixed Assets**

There are mainly two ways of acquiring fixed assets i.e. leasing and buying.

- If assets are acquired through lease, annual rental charge is fully allowed for deduction.
- If assets purchased on loan, depreciation as well as interest on borrowed loan are allowed for deduction.
- If assets are purchased from own fund, depreciation is allowed for deduction.

**ii) Repair and Maintenance Cost:**

According to ITA, 2058, the business organization has allowed repair and maintenance cost up to 7% of depreciation basis from its income. Taxpayers should plan these expenses in such a manner so that maximum deduction is possible. The excess repairs can be capitalized and depreciated from the next income year.

**iii) Pollution Control Cost:**

ITA, 2058 has provided a deduction for pollution control cost up to 50% of adjusted taxable business income. The excess pollution control cost is capitalized and depreciated under Block 'D' from next income year. The taxpayer should plan to get the cost for maximum deduction of tax liability.

**iv) Research and Development Cost:**

As in the case of PCC, R and D costs are also allowed for deduction up to 50% of adjusted taxable business income. The excess R and D cost is capitalized and depreciated under block D from next income year. The taxpayer can reduce tax burden by spending on R and D.

**v) Donation:**

A donation given to tax-exempt organization is allowed for deduction to an individual or an entity up to Rs. 1,00,000 or 5% of adjusted taxable income. However, the donation given to Lumbini area Development Trust and Pashupati Area Development Trust is allowed for deduction up to Rs. 50,00,000. This provision is available to profit making entity only. A taxpayer can plan the amount of donation to reduce his tax liability.

**vi) Loss Recovery:**

According to income Tax Act, Loss from a business can be carried forward up to next four income years for ordinary business and seven years for infrastructure projects. In addition to carry forward of losses, banking and financial institutions can carry back their losses from proceeding five income years. This provision is available for bank only if it doesn't maintain loan loss provision. As per the act, loss from investment can not be carried forward or backward. While setting of losses, priority should be given to investment losses. If it is not recouped in the year of loss, it can't be carried backward or forward. In this way, a taxpayer can adjust maximum losses as possible.

#### **vii) Stock Valuation:**

ITA, 2058 has allowed two methods for valuation of market price or cost price whichever is less. The business organization keeping accounts on a cash basis needs to adopt prime cost basis for valuation of stock and while business organization keeping account on an accrual basis, it can adopt either prime cost or factory cost basis. If the cost of stock cannot be determined, stock can be valued either FIFO or weighted average method. From the view point of tax, FIFO method of valuation is more costly than weighted average cost method. So, weighted average method is more beneficial as it produces lower profit and it reduces the tax liability.

### **3.8 Income Tax in Nepal**

The history of modern income Tax is not very old in Nepal. The idea of introducing income Tax in Nepal originated in the early 1950s when a multiparty democratic political system was introduced. Actually, the modern income Tax Act was introduced by the first elected government in the year 1959 A.D. in Nepal. After the political revolution in February 1951 A.D. (2007 B.S. Falgun), the role of government has increased to developmental as well as philanthropic works. The government of Nepal had presented its first budget in 1952 A.D. (2008, Magh 21). The first five year plan started in 1956. The planned Activities of the government needed huge amount of source and means. So huge revenue was demanded and Nepalese government started to levy Tax on income as permanent source. As a result, it issued first finance ordinance in 1959 (2016) to impose tax on business profit and remuneration. In 1960 (2017) the income Tax Act named “Business profit and salaries Tax Act, 1960” was made with the provisions of finance ordinance 1959. That was the first income Tax Act which had 22 sections. But that Act was found narrow and vague. So, after 3 years it was replaced by the income Tax Act 1962 A.D. (2019 B.S.). That Act continued for 12 years and it was also replaced by the income Tax Act, 1974 A.D. (2031B.S.) the Act classified income sources into five groups. The parliament of Nepal enacted income Tax Act 2002 A.D. (2058

B.S.) with effective from 1 April 2002 A.D. (Chaitra 19, 2058 B.S.). This Act has replaced income Tax Act, 1974 A.D. (2031 B.S.), which was amended for eight times and existed for a period of 28 years.

### **3.8.1 Business Profits and salaries Tax Act, 1960**

The finance Act 1960, made provisions for the Taxation of business profits and remunerations. An ordinance was issued by the king to collect the Tax. In 1960, parliament of Nepal, enacted “Business profit and salaries Tax Act 1960 (2017 B.S.)”, which consisted of 22 sections. With the enactment of that Act, the salary Tax or personnel income Tax was levied upon those individuals whose personal income exceeded Rs. 6,000 per year. In the first three years, the exemption was Rs. 7,000. An examination of Tax files in the Kathmandu District office disclosed 557 personal income Tax files of individuals who had paid Taxes in one or more year.

The silent features of the Act 1960 are as follow:

1. The basis for calculating the Tax liability for remuneration was the income of the current year and for the business profit, it was the profit of preceding year.
2. Only remuneration and business profit were subject to Tax. Deduction was not specified for the purpose of calculating the income.
3. Tax on remuneration was to be deducted at source.
4. The Tax payer was given the right to appeal against the Tax court. Every appeal was to be accompanied by security deposit for the amount of Tax payable.
5. In case of default, fines up to Rs. 5000 were prescribed.
6. The Tax officers were empowered to assess Tax on the basis of best judgement estimates.
7. Profit from industries was granted a rebate of 25% and profit from small industries were granted a rebate of 50%.

As high discretionary power in assessment of income Tax granted to Tax officers, various loopholes, narrow and Vague Tax base were the major shortcomings of that Act which cause the income Tax Act 1962 A.D. (2019) came into existence.

### **3.8.2. Income Tax Act, 1962 (2019 B.S.)**

The main purpose of the imposition of this Act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular Tax paying habit of the Taxpayer. The income Tax Act 1962 had 29 sections and it was amended in 1972 (2029 B.S.). It had provision of imposition of income Tax in agricultural income, but this provision was abolished by the finance Act, 1966 (2023). The additional features of this Act (ITA 1962) were as follows:

1. Income was defined as kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash, agriculture, insurance business, agency and any other sources.
2. The income Tax assessment and collection procedure were specified along with the method of computing net income. Certain deductions were allowed to calculate net income.
3. The personal as well as residential status of the Tax payer for the Tax purpose was defined.
4. The basis was specified for assessing Tax on the best judgment estimate of the Tax officer.
5. Provision was made for the installment as well as advance payment of the Tax for the first time.
6. Carry forward of losses was allowed for two years.
7. Provision was made for the exemption of income Tax for the new industries for a period of not exceeding ten years.
8. The Act granted power to constitute a net income assessment committee.

The changing socio-economic environment of the nation had forced to change the income Tax Act. As a result income Tax Act, 1974 (2031) came into existence.

### **3.8.3 Income Tax Act, 1974 (2031)**

The Income Tax Act, 1974 can be said to be the refined form of income Tax Act, 1962 (Dhakal, 2057). It had 66 sections and the Act classified income sources into five groups. This Act has explained various aspects of Taxes, containing many provisions for Taxation. This Act was amended for eight times.

Some major features are as follow:

1. Five heads of income sources were specified Viz. a) Agriculture b) Industry, Business, Profession or occupation c) Remuneration d) House and land rent and e) Other sources.
2. This Act had clearly defined about income Tax, Taxpayer, year of income, personal status of Taxpayer, non-resident Taxpayer and net income and so no.
3. Methods of computing the Taxable income from each head had been specified with deductions allowable.
4. The Act had made it obligatory for Taxpayer to register their industries, business, profession or vocation in the Tax office and any changes should be notified.
5. Carry forward of losses is allowed for within subsequent three years.
6. Provision was made for self- assessment of Tax for the first time in Nepal.
7. Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.
8. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.



9. Provision was made relating to reassessment or additional assessment of Tax.
10. Provision was made to make agreement for avoidance of double Taxation with foreign.

### **3.8.4 Income Tax Act, 2002 (2058)**

Various new concepts have been introduced in this Act as compared to Income Tax Act, 1974 (2031). Income Tax Act 2002 (2058) has been enacted since 1 April 2002 A.D. (19 chaitra, 2058 B.S.) to avoid the weakness of ITA 1974 (2031). This Act contains 143 sections.

The key features of Income Tax Act, 2058 are as follows:

1. Classification of sources of income into 3 classes. A) Business b) Employment c) Investment
2. All income Tax related matters are confined within the Act by abolishing all Tax related concessions, rebates and exemption provided by different Acts.
3. The Act has broadened the Tax base. Unlike previous Tax Act, Tax rates are spelled out in the Act. The Tax rates and concessions are harmonized on equity grounds
4. The Act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
5. The Act has first introduced Taxation on capital gains.
6. The Act has provided liberal loss set-off and carry forward/ backward provisions. Inter-head adjustments of losses are clearly specified.
7. The Act has introduced a provision for administrative reviews to allow the Tax administrative to correct mistakes made by Tax administrators internally
8. The Act has provided a stringent fine and penalty for the defaulters.
9. Global incomes of a resident are made Taxable. Non-residents are also taxed on their incomes with source in Nepal.

10. List of expenses are inclusive. All expenses relating to income have been made admissible.

11. The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the Taxpayers from criminal liabilities.

The Act has made provision of international Taxation. Foreign Tax credit has been introduced for the first time.

### **3.9 Legal Provision and Analysis**

To deals with the legal provision related to the tax incentives and facilities under ITA 2058. The various incentives and facilities provided by the new ITA 2058 to the industries are analyzed in this chapter so as to conclude whether the tax incentives and facilities are sufficient enough to promote industries or not.

#### **3.9.1 An Analysis of Tax Incentives and Facilities**

ITA 2058 has provided various tax incentives and facilities to industries. These incentives and facilities are analyzed below.

##### **3.9.1.1 Tax Concessions Available to Certain Special Industries**

As per the clarification clauses of Section 11, a special industry is an industry categorized under Section 3 of Industrial Enterprises Act, 1992. These industries are the manufacturing industries other than cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of similar nature utilizing tobacco as the basis raw material and alcohol or beer producing industries.

As per Section 3, the manufacturing industries are those which produce goods by utilizing or processing raw material, semi-processed materials, by products or waste products or any other goods.

The tax rate applicable to these industries is 20% in flat rate, which seems to be nominal to the larger industries but it is not suitable to small industries and export industries. To encourage the investment in small as well

as the export industries, the tax rate should be minimized. It should be in progressive rate rather than flat rate.

### **3.9.1.2 Tax Concession to a Special Industry Having Six Hundred or More Employees {Section 11(3)(ka)}**

Tax concession is available to a person running a special industry, which provides direct employment to six hundreds or more Nepali citizens during the whole income year.

Direct employment mean employment by the person but it does not include the contract labour, casual labour, of part time labour.

**10% Tax concession available to the industry, which employs 600 or more employees throughout an income year.**

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	18%
Natural person (Couple)		
First Rs. 2,00,000	Nil	Nil
Next Rs. 1,00,000	15%	13.5%
Rest	20%	18%
Natural Person(Individual)		
First Rs. 1,60,000	Nil	Nil
Next Rs. 1,00,000	15%	13.5%
Rest	20%	18%

Note: The concession for an industrial unit run by a natural person is available from the income year 2067-68 under finance ordinance, 2068.

One of the major problems of Nepal is unemployment and the tax concession provided to the employment oriented industries by income tax act is very much lower i.e. 10% only. Unemployment is very common in Nepal and to reduce the unemployment, industries employing more employees should be encouraged. More tax incentives should be provided to these industries. So,

the 10% rebate to the industry, which employment to 600 or more, should be increased to 25%.

### 3.9.1.3 Tax Concession to Special Industries Established in Different Areas

Income tax act has provided tax concession to industries established in various areas, which are presented below.

#### 3.9.1.3.1 Tax Concession in Remote Area {Section 11(3)(kha)}

If a person has a special industry, which has been established in an area declared as 'Remote Area' by Nepal Government, can avail the concession of 50% of a rate applicable to a Special industry.

These districts of Nepal are declared as remote area:

- |                   |                |               |
|-------------------|----------------|---------------|
| 1. Darchula       | 2. Bajhang     | 3. Bajura     |
| 4. Humla          | 5. Jumla       | 6. Mugu       |
| 7. Kalikot        | 8. Dolpa       | 9. Mustang    |
| 10. Manang        | 11. Solukhumbu | 12. Ramechhap |
| 13. Khotang       | 14. Bhojpur    | 15. Achham    |
| 16. Dailekha      | 17. Jajarkot   | 18. Rukum     |
| 19. Okhaldhunga   | 20. Myangdi    | 21. Terathum  |
| 22. Sankhuwasabha |                |               |

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	10%
Natural person(Couple)	Nil	Nil
First Rs. 2,00,000	15%	7.5%
Next Rs. 1,00,000	20%	10%
Rest		
Natural Person(Individual)	Nil	Nil
	15%	7.5%

First Rs. 1,60,000	20%	10%
Next Rs. 1,00,000		
Rest		

**Note 1.:** The concession for an industrial unit run by a natural person is available from the income year 2067-68 under finance ordinance, 2068.

**Note 2.:** The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

If industries are operated in remote areas, the economic activities as well as the income of the poor people increase through employment. It will consume the local productions as raw material and also help in the equal distribution of income. So, promotion of industries in remote areas is necessary but the income tax concession is very nominal i.e. 50%. Therefore, the tax concession should be increased to near about 90% to the industries established in remote areas.

### **3.9.1.3.2 Tax Concession in Undeveloped Area {Section 11(3)(kha)}**

If a person has a special industry, which has been established at any area declared as 'Undeveloped Area' by Nepal Government, the person can avail a concession of 30% of a rate applicable to a special industry.

These districts of Nepal are declared as undeveloped area:

- |                    |                |             |
|--------------------|----------------|-------------|
| 1. Taplejung       | 2. Rolpa       | 3. Baitadi  |
| 4. Rasuwa          | 5. Gulmi       | 6. Parbat   |
| 7. Dadeldhura      | 8. Pyuthan     | 9. Doti     |
| 10. Salyan         | 11. Panchathar | 12. Baglung |
| 13. Sindhupalchowk |                |             |

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	14%
Natural person(Couple)	Nil	Nil
First Rs. 2,00,000	15%	10.5%
Next Rs. 1,00,000	20%	14%
Rest		
Natural Person(Individual)	Nil	Nil
First Rs. 1,60,000	15%	10.5%
Next Rs. 1,00,000	20%	14%
Rest		

**Note 1.:** The concession for an industrial unit run by a natural person is available from the income year 2067-68 under finance ordinance, 2068.

**Note 2.:** The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

As in remote areas, in undeveloped areas contribution of industries will be more beneficial but the tax concession is only 30%. Therefore, it should be increased to 80%.

### **3.9.1.3.3 Tax Concessions in Underdeveloped Area {Section 11(3)(kha)}**

If a person has special industry, which is established at any area declared as 'Underdeveloped Area' by Nepal Government, the person can avail a concession of 25% of rate applicable to a special industry.

These districts of Nepal are declared as underdeveloped area:

- |                     |                 |              |
|---------------------|-----------------|--------------|
| 1. Kailali          | 2. Arghakhanchi | 3. Surkhet   |
| 4. Palpa            | 5. Syangja      | 6. Dhading   |
| 7. Lamjung          | 8. Tanahu       | 9. Gorkha    |
| 10. Sindhuli        | 11. Udayapur    | 12. Dhankuta |
| 13. Ilam            | 14. Kanchanpur  | 15. Bardia   |
| 16. Dang            | 17. Nuwakot     | 18. Dolakha  |
| 19. Kavrepalanchowk |                 |              |

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	15%
Natural person (Couple)	Nil	Nil
First Rs. 2,00,000	15%	11.25%
Next Rs. 1,00,000	20%	15%
Rest		
Natural Person (Individual)	Nil	Nil
First Rs. 1,60,000	15%	11.25%
Next Rs. 1,00,000	20%	15%
Rest		

**Note 1.:** The concession for an industrial unit run by a natural person is available from the income year 2067-68 under finance ordinance, 2068.

**Note 2.:** The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

Since, the economic activities of this area are not as poor as in remote and undeveloped areas the tax concession of 25% to the industries established in underdeveloped areas seems to be sufficient.

**Note:** 1. Any industry, which has entitled to get both the tax concessions under sections 11(3)(ka) and 11(3)(kha) should choose either of them but not both of them.

2. The tax concession under section 11(3)(kha) is only for 10 income years.

The tax concession period of 10 years to the new industries established in different areas seems to be insufficient because almost all of the new industries will be in loss in the initial years and when they passes to the stage of profit the tax concession period expires. So, the tax concession period of 10 years is not sufficient and it should be increased. It should be 15 years to the industries established in underdeveloped areas and 20 years to the industries established in the remote areas.

#### **3.9.1.4 Accelerated Depreciation Facilities Available to Certain Special Industries {Section 19, Schedule - 2}**

Depreciation is the reduction in the original value of a depreciable asset due to use or obsolescence over the expected life of the asset. Depreciation is an important factor for reduction of tax liability of a person because depreciation is a deductible expense. For the purpose of calculating a person's income for an income year from any business or investment, the person is allowed to deduct the depreciation of depreciable assets owned and used by the person during the year in the production of income from the business or investment. (Amatya; 2060,130)

Income tax act 2058 has categorized the depreciable assets into five classes and each class includes different pools (groups). The act has also specified the rate and procedure of computing depreciation for each class. The treatment with regard to the disposal of the depreciation for each class and depreciation rate for the concerned class is as follows.



Class	Assets Included in each class	Depreciation rate in Percentage
A	Buildings, structure and similar works of a permanent nature	5
B	Computers, data handling equipment, fixtures, office furniture and office equipment	25
C	Automobiles, buses and minibuses	20
D	Construction and earth-moving equipment, any depreciable asset not included in another class,	15
E	capitalized PCC and R&D. Intangible Assets	$\frac{1}{\text{usefullife}}$

ITA, 2058 has provided a facility to charge additional depreciation to the special industries, entity engaged in building public infrastructure etc. This additional depreciation seems to be sufficient to industries. If the additional depreciation is more than 1/3, industry would be in higher loss in initial year, which may not be recovered in 4 years whereas the taxable income will be very high in the succeeding years due low amount of depreciation chargeable.

### 3.9.1.5 Pollution Control Cost {Section 17}

ITA 2058 has allowed deducting the expenditure made on installing the pollution control cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

This deduction facility has two types of impact. In one hand, if the whole amount is not allowed to deduct industry may be discouraged to install pollution control device. In other hand, if whole amount allowed to deduct the

industry may purchase and install this device at the income year in which the taxable income is high so as to reduce the tax liability. The excess amount can be allowed to capitalize and depreciate. Therefore, the deduction facilities given by this ITA seems to be sufficient.

#### **3.9.1.6 Research and Development Cost {Section 18}**

ITA 2058 has allowed deducting the expenditure made on research and development cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

ITA has given similar deduction facilities to pollution control cost and research and development cost. Therefore, it should be like pollution control cost.

#### **3.9.1.7 Carry Forward and Set off of Industrial Losses {section 20}**

ITA 2058 has allowed the business losses from the investment losses but the tax rate should be same. This facility seems to be unusual to the industry because the tax rate applicable to industry is 20% and the tax rate of investment income is 25%. So, the industry cannot set off and carry forward its losses from investment income.

On the other hand, the carry forward facility to industry and normal business is same, which seems to be inequitable. Industries need higher amount of investment and have more risk in investment than any trading business but the carry forward and set off facilities of industrial losses is similar to industries and trading business. So, the loss adjustment facility should be more liberal and it should not be less than seven years.

## **CHAPTER IV**

### **RESEARCH METHODOLOGY**

Research methodology is the systematic way to solve the research problem. In other way, research methodology describes the methods and process used in the entire aspect of the study and it may be understand as a science of studying how research is done scientifically. It helps to analyze, examine and interpret various aspect of research work.

So, this chapter is concerned to the methodology applied in the study period of this research. Both the primary and secondary sources of data have been used in this study but the secondary data is too little. The main source of primary data is opinion survey. The respondents of the opinion survey were divided into two groups. The first group is of tax experts and consists of officers of IRD, tax policy makers, officers of different ministry, chartered accountants, lawyers etc. second group is of officers of manufacturing firms and consists of finance officers, account officers and tax officers of different manufacturing firms. The main source of secondary data is economic survey of different years. Various statistical tools are used to analyze these data. The main statistical tools used in this study are simple average, percentage, correlation and chi-square test for the hypothesis developed.

#### **4.1 Research Design**

Research design is the specification of method and procedure for acquiring the information needed. It deals with what information is to be collected from which sources and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objective and economic procedures.

To achieve the specific objectives of the study, descriptive and analytical research has been carried out in terms of applicability of tax incentives and tax planning in Nepalese organizations. For an empirical investigation; an opinion of study has been conducted. Most of the data and information of the study were concerned with the opinion, experience and

performance of the respondents. After the collection of data, this study analyzed and described its own procedure. Research design, thus is overall framework for the achievement of the goals and objectives of the research.

#### **4.2 Populations and Samples**

All the tax experts and the officers of manufacturing firms available in Nepal are considered as total population and the tax experts and officers of manufacturing firms available in Kathmandu Valley are considered as the targeted population. Out of the targeted population, samples of 100 people have been taken into consideration. The number and type of the samples are presented below.

**Table: 4.1**  
**Group of Respondents and Sample Size**

<b>S.N.</b>	<b>Respondents</b>	<b>Sample Size</b>
1.	Tax Experts	40
2.	Officers of manufacturing firms	60
Total		100

#### **4.3 Selection of the Respondents**

A set of questionnaire has been developed and distributed to the various respondents. The respondents are selected judgmentally from the various sectors. They are divided into two groups' viz. tax experts and officers of manufacturing firms. The first group includes the tax experts from various sectors such as IRD officers, chartered accountants, lawyers, policy makers, auditors etc. and officer includes the finance officers, tax officers, account officers, internal auditors etc. of the various manufacturing Firms.

#### **4.4 Nature and Sources of Data**

Both the primary and the secondary data have been used in this study. Mainly the primary sources of data and information has been used and Very few of secondary data have been used in this study. Unavailability of related

secondary data is the main cause of minimum use. Data are collected in order to fulfill the objective of the study. The sources of data can be divided into two parts:

#### **4.4.1 Primary Data**

Primary source of data has been collected from the opinion survey of the tax expert and tax payers. The self structured questionnaires; informal dialogues, discussion & direct interview, questions have been distributed to selected respondents of different group such as tax experts and taxpayers.

#### **4.4.2 Secondary Data**

The secondary sources of data are the information received from articles, journals, newspaper, dissertations, books etc. the major sources of secondary data are as follows

- Annual Report of IRD, MOF, Nepal government
- Economic survey on budget speeches, MOF, Nepal Government.
- Published document of national planning commission and NRB.
- Dissertations related to tax administration.
- Books related to Income Tax Act, 2058, Industrial enterprises act 2049 and tax administration.
- Other relevant records and data including useful websites.

#### **4.5 Procedure of Data Collection**

A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to various respondents personally. Additional information's also have collected from the respondents by personal interview at the times of opinion survey.

#### **4.6 Procedure for Processing and Analysis of Data**

First of all, the information and the data received from the various sources are systematically tabulated in separate table and then the statistical tools are used to achieve the desired objectives. The various statistical tools used are: simple average, percentages, average, correlation coefficient, and chi-square for hypothesis test. Some descriptive data are analyzed on the basis of his personal experience, on the basis of study and personal interview.

The hypothesis has been tested to check whether there is significant difference between the view of tax experts and taxpayers. The main tool used is chi-square test.

#### **4.7 Weight of the Choice**

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

#### **4.8 Statistical Tools Used:**

Some Major statistical Tools have been used to attain the objectives of this study. For analysis and interpretation of collected data the following statistical tools are used in this study.

#### 4.8.1 Rank Correlation coefficient:

Rank Correlation coefficient is the measurement of relationship between two variables with their respective ranks. It is also called spearman's rank correlation coefficient and is given by,

$$r_s = 1 - \frac{6 \sum d^2}{n(n^2-1)}$$

Where,

$r_s$  = Spearman's rank correlation coefficient between X and Y variables.

$d$  = Difference between the ranks for each pair of observations.

(i.e.  $d = R_1 - R_2$ )

$N$  = Number of pairs of ranks.

#### 4.8.2 Testing of Hypothesis:

##### Setting the hypothesis,

Null hypothesis,  $H_0: \mu = \mu_0$ : There is no significant relationship between the views of tax payers and tax expert.

Alternative hypothesis,  $H_1: \mu \neq \mu_0$ : There is significant relationship between the Views of tax payers and tax experts.

Where,

$\mu$  is the spearman's rank correlation coefficient in the population.

$\mu_0$  is the some specified value.

$\alpha = 0.05$  (Level of significance)

A two tailed test has been applied. So, by looking at table values in the row for the number of pair observation and the column for the significance level of 0.05, it has found that the upper limit of acceptance region is '+ve' and the lower limit of acceptance region is '-ve'.

## **CHAPTER V**

### **DATA PRESENTATION AND ANALYSIS**

#### **5.1 Introduction**

This chapter deals with the presentation and analysis of the data collected while conducting this research work. The data are presented in the form of tables and analyzed to draw the conclusions. The result of data analysis has been helpful to derive the findings and summarizing the conclusion of the research. This chapter is the main body of the research work. Which has included all the procedures of study, different tools and instruments etc.. The main portion of the investigation depends upon the view of respondents rather than secondary data. This investigation has been conducted for the purpose of studying tax incentives, tax planning and correlation between these two terms in the context of Nepalese industries and current legal and business environment. For which, questionnaires have been developed and responses are collected from the respondent. A set of questionnaires has been distributed to the respondents. The respondents were tax experts of different fields and officers of different manufacturing firms. The responses received from various respondents have been arranged in a particular sequence which is then tabulated and analyzed in order to facilitate the empirical/statistical analysis of the study.

The questionnaires included different question items either for yes/No response or choice of alternatives or ranking of alternatives. In choice alternatives, the first choice has the most important and the last choice has the least important. And the choices among the ranking alternatives have been assigned weights according to the numbers of alternatives. If the number of alternative has been seven, the first choice gets the seven points and the last preferred choice has got one point. Any alternative, which has not ranked, got no points. The total points available to each choice have been converted into percentages with reference to the total points available for all choices. The choice with the highest percentage score has been ranked as the most important



choice and the one with the lowest percentage score has been ranked as the last choice.

The following table shows the group of respondents

**Table:5.1**  
**Groups of the Respondents**

S.N.	Groups of Respondents	Sample Size
1.	Tax experts	40
2.	Officers of Manufacturing firms	60
	Total	100

*Note: See the list of respondents in appendix II*

## 5.2 Sufficiency of Tax Incentives:

The opinion of the respondents regarding the sufficiency of tax incentives as provided in ITA 2058 was crucial important one. The respondents were asked the question “Do you think that the tax incentives provided by ITA 2058 to the industries are sufficient to attract the new industries?” They were asked to reply in ‘Yes’ or ‘No’. To deal with this question, their responses have been presented in the tabulated form.

**Table: 5.2**  
**Sufficiency of tax incentives**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	32	80	8	20	40	100
officers	29	48	31	52	60	100
Total	61	61	39	39	100	100

*Source: Opinion Survey, 2012.*

The above table: 5.2 show that 61% of the respondents have viewed that ITA 2058 has provided sufficient tax incentives. 80% of the tax experts think that tax incentives are enough. But the officers are not satisfied with the tax

incentives provided by ITA 2058. Only 48% of the officers are satisfied with the given incentives and facilities.

Some of the respondents have opined that tax incentives do not play any role in promoting new industries. They said, instead of tax incentives, infrastructure, marketing of goods, political stability, conducive environment to the industries, capital and availability of raw materials etc. play major roles in attracting industries.

**Test of Hypothesis: Chi-square (  $\chi^2$  ) test**

Respondents	Yes	No	Row Total
Tax Experts	32	8	40
officers	29	31	60
Column Total	61	39	100

*Source: Table 5.2*

**Null Hypothesis,  $H_0$ :** There is no significant difference in view between tax experts and officers of manufacturing firms regarding the tax incentives provided by ITA 2058.

**Alternative Hypothesis,  $H_1$ :** There is significant difference in view between tax experts and officers of manufacturing firms regarding the tax incentives provided by ITA 2058.

Test statistics: Under  $H_0$ , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where,  $f_o$ =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

### Calculation of $\chi^2$

(Row, Column)	$f_0$	$f_e$	$f_0 - f_e$	$(f_0 - f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1,1)	23	$\frac{40 \times 61}{100} = 24.4$	7.6	57.76	2.37
(1,2)	8	$\frac{40 \times 39}{100} = 15.6$	-7.6	57.76	3.70
(2,1)	29	$\frac{60 \times 61}{100} = 36.6$	-7.6	57.76	1.58
(2,2)	31	$\frac{60 \times 39}{100} = 23.4$	-7.6	57.76	2.47
					$\frac{(f_0 - f_e)^2}{f_e} = 10.12$

$$\text{Calculated } \chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 10.12$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

Tabulated value of  $\chi^2$  at 5% level of significance for 1d.f. is 3.841

Since calculated  $\chi^2 >$  tabulated  $\chi^2$ , Therefore the null hypothesis is rejected. So, there are significant difference between the view of tax experts and officers of manufacturing firms regarding the tax incentives provided by ITA 2058.

In conclusion, tax incentives are sufficient in the view of tax experts. But incentives are insufficient in the view of officers of manufacturing firms who are the real users of tax incentives. So, officers of manufacturing firms demands more incentives and scientific dealing of incentives.

### 5.3 Tax Planning as a Tool of Reducing Tax Burden

To know the views of respondents whether tax planning is the tool of reducing tax burden, they were asked the question “Do you accept that tax planning is one of the tools to reduce the tax burden?”. The responses obtained from them have been presented in the following table.

**Table: 5.3**

**Tax planning as a tool of reducing Tax burden**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	34	85	6	15	40	100
officers	42	70	18	30	60	100
Total	76	76	24	24	100	100

*Source: Opinion Survey, 2012.*

From the above table: 5.3, it is clear that respondents agreed that tax planning is a tool to reduce the tax burden. Only 15% of the tax experts and 30% of the officers are against the argument. Therefore, most of the respondents are positive towards the argument that tax planning is the tool of reducing tax burden. They have realized the importance of it.

**Test of Hypothesis: Chi-square (  $\chi^2$  ) test**

Respondents	Yes	No	Row Total
Tax Experts	34	6	40
Officers	42	18	60
Column Total	76	24	100

*Source: Table 5.3*

**Null Hypothesis,  $H_0$ :** There is no significant difference in the view between tax experts and officers of manufacturing firms regarding the argument of tax planning as a tool of reducing tax burden.

**Alternative Hypothesis,  $H_1$ :** There is significant difference in the view between tax experts and officers of manufacturing firms regarding the argument of tax planning as a tool of reducing tax burden.

Test statistics: Under  $H_0$ , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where,  $f_o$ =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

### Calculation of $\chi^2$

(Row,Column)	$f_0$	$f_e$	$f_0 - f_e$	$(f_0 - f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1,1)	34	$\frac{40 \times 76}{100} = 30.4$	3.6	12.96	0.43
(1,2)	6	$\frac{40 \times 24}{100} = 9.6$	-3.6	12.96	1.35
(2,1)	42	$\frac{60 \times 76}{100} = 45.6$	-3.6	12.69	0.28
(2,2)	18	$\frac{66 \times 24}{100} = 14.4$	3.6	12.96	0.90
					$\frac{(f_0 - f_e)^2}{f_e} = 2.96$

$$\text{Calculated } \chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 2.96$$

Degree of freedom (d.f.) =  $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

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

Tabulated value of  $\chi^2$  at 5% Level of Significance for 1 d.f. is 3.841

Since, the calculated value of  $\chi^2$  is less than tabulated value of  $\chi^2$ . The null hypothesis is accepted. Therefore there is significant difference between the view of tax experts and the officers of manufacturing firms regarding the argument of tax planning as a tool of reducing tax burden.

Hence, it can be concluded that most of the tax experts and officers of manufacturing firms have understood the tax planning and they agree that tax planning reduces the amount to be paid to the government and tax burden.

## 5.4 Opinion whether present ITA has provided Sufficient Scope of Tax

### Planning or Not:

To deal with this issue, the respondents were asked the question, “Do you think that the present ITA has provided sufficient scope of tax planning?”. The responses drawn from the responded have been presented in following table.

**Table: 5.4**  
**sufficient scope of tax planning provided by ITA**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	15	37	25	63	40	100
Officers	8	13	52	87	60	100
Total	23	23	77	77	100	100

*Source: Opinion Survey, 2012.*

From the above table: 5.4, we can understand that nearly 23% of the respondents have accepted that sufficient scope of tax planning is provided by ITA. And 77% of the respondents have not agreed that. They are against the argument.

### Test of Hypothesis: Chi-square ( $\chi^2$ ) test

Respondents	Yes	No	Row Total
Tax Experts	15	25	40
Officers	8	52	60
Column Total	23	77	100

*Source: Table 5.4*

**Null Hypothesis,  $H_0$ :** There is no significant difference in the view between tax experts and officers of manufacturing firms regarding the sufficient scope of tax planning that is provided by Present ITA.

**Alternative Hypothesis,  $H_1$ :** There is significant difference in the view between tax experts and officers of manufacturing firms regarding the sufficient scope of tax planning that is provided by Present ITA.

Test statistics: Under  $H_0$ , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where,  $f_o$ =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

### Calculation of $\chi^2$ :

(Row, Column)	$f_o$	$f_e$	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	15	$\frac{40 \times 23}{100} = 9.2$	5.8	33.64	3.66
(1,2)	25	$\frac{40 \times 77}{100} = 30.8$	-5.8	33.64	1.09
(2,1)	8	$\frac{60 \times 23}{100} = 13.8$	-5.8	33.64	2.44
(2,2)	52	$\frac{60 \times 77}{100} = 46.2$	5.8	33.64	0.73
					$\frac{(f_o - f_e)^2}{f_e} = 7.92$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 7.92$$

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

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

Tabulated value of  $\chi^2$  at 5% level of significance for 1d.f. is 3.841

Since calculated  $\chi^2$  greater than tabulated  $\chi^2$ , the null hypothesis is rejected. Therefore, there is significant difference between the view of tax experts and officers of manufacturing firms regarding sufficient scope of tax planning that is provided by Present ITA.

### 5.5 The incentives that are provided by ITA to the industries:

Most of the respondents have responded that the incentives provided by present ITA to the industries are not sufficient. To confirm this, the respondents have been asked the supplementary ranking questions two open options. The

question was “If yes, what are the areas”? Responses were placed in the table in ranking order of importance starting from 1 to 7. The responses are tabulated as given below:

**Table: 5.5**  
**Calculation of rank correlation coefficient**

S.N.	Alternatives	(X)	Rank For X (R <sub>1</sub> )	(Y)	Rank For Y (R <sub>2</sub> )	D= R <sub>1</sub> -R <sub>2</sub>	D <sup>2</sup>
1.	Pollution Control Cost	37	4	16	3	1	1
2.	Research and Development Cost	33	5	13	5	0	
3.	Location Decision	49	2	14	4	-2	4
4.	Capital budgeting(Depreciation)	51	1	26	1	0	0
5.	Carry Forward of Loss	47	3	22	2	1	1
6.	Inter head Adjustment	17	6	12	6	0	0
7.	Others	16	7	11	7	0	0
							D <sup>2</sup> =6

*(Note: X refers to tax experts and Y refers officers)*

We have formula,

$$r=1-\frac{6\sum D^2}{n(n^2-1)} = 1-\frac{6 \times 6}{7(7 \times 7-1)} = 0.97$$

Since, the rank correlation coefficient is higher i.e. 0.97, there is higher correlation between the views of tax experts and officers regarding incentives provided by ITA. So, it can be concluded that most of the respondents who are satisfied with incentives provided by ITA think that Capital budgeting, carry forward of loss, PCC and R&D have enough incentives. They have given less value to inter heads and other topic.



### 5.6 Relation between tax incentives and tax planning:

“Tax incentives and tax planning are positively correlated”. To find out the opinion of respondents on this question, respondents were asked “Do you agree with this statement?”. The responses obtained are tabulated as below.

**Table: 5.6**

#### **Relation between tax incentives and tax planning**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	28	70	12	30	40	100
Officers	51	85	9	15	60	100
Total	79	79	21	21	100	100

*Source: Opinion Survey, 2012.*

From the above table: 5.6, it can be said that most of the respondents agree that tax incentives and tax planning are positively related. It indicates that 70% of the tax experts and 85% of the officers agree with the argument. It shows that tax incentives and tax planning are closely related.

#### **Test of Hypothesis: Chi-square ( $\chi^2$ ) test**

Respondents	Yes	No	Row Total
Tax Experts	28	12	40
Officers	51	9	60
Column Total	79	21	100

*Source: Table 4.6*

**Null Hypothesis,  $H_0$ :** There is no significant difference in the view between tax experts and officers regarding the relation of tax incentives and tax planning.

**Alternative Hypothesis,  $H_1$ :** There is significant difference in the view between tax experts and officers regarding the relation of tax incentives and tax planning.

Test statistics: Under  $H_0$ , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where,  $f_o$  = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

### Calculation of $\chi^2$

(Row, Column)	$f_o$	$f_e$	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	28	$\frac{40 \times 79}{100} = 31.6$	-3.6	12.96	0.41
(1,2)	12	$\frac{40 \times 21}{100} = 8.4$	3.6	12.96	1.54
(2,1)	51	$\frac{60 \times 79}{100} = 47.4$	3.6	12.96	0.27
(2,2)	9	$\frac{60 \times 21}{100} = 12.6$	-3.6	12.96	1.03
					$\frac{(f_o - f_e)^2}{f_e} = 3.25$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 3.25$$

Degree of freedom (d.f.) =  $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

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

Tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 3.841

Since, calculated  $\chi^2 <$  tabulated  $\chi^2$ , the null hypothesis is accepted and alternative hypothesis is rejected. So, there is no significant difference between the views of tax experts and officers regarding the relation of tax incentives and tax planning.

So, it can be concluded that the opinion towards the relation between tax incentives and tax planning is same. Both tax experts and officers accept that

tax incentive is a prime factor which influences the tax planning and off course they have positive correlation.

### 5.7 Requirement of Addition Tax Incentives:

To know the opinion of respondents about additional requirement of tax incentives to increase the scope of tax planning, they were asked the question, "Is there any other incentive required in ITA 2058 which increases the scope of tax planning?"

The responses given by different respondents have been presented in the table bellow:

**Table: 5.7**  
**Requirement of Addition tax incentives**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	12	30	28	70	40	100
Officers	51	85	9	15	60	100
Total	63	63	37	37	100	100

*Source: Opinion Survey, 2012.*

Above table: 5.7, indicates that 63% of the whole respondents viewed that additional tax incentives is required to increase the scope of tax planning. Among the tax experts, only 30% of them think that addition tax incentives are needed. And among the officers of manufacturing firms, 85% of them are found to expect further incentives.

### Test of Hypothesis: Chi-square ( $\chi^2$ ) test

Respondents	Yes	No	Row Total
Tax Experts	12	28	40
Officers	51	9	60
Column Total	63	37	100

*Source: Table 5.7*

**Null Hypothesis, H<sub>0</sub>:** There is no significant difference in the view between tax experts and officers of manufacturing firms, regarding the requirement of additional tax incentives to increase the scope of tax planning.

**Alternative Hypothesis, H<sub>1</sub>:** There is significant difference in the view between tax experts and officers of manufacturing firms, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Test statistics: Under H<sub>0</sub>, the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f<sub>o</sub>=Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

#### Calculation of $\chi^2$

(Row,Column)	f <sub>o</sub>	f <sub>e</sub>	f <sub>o</sub> -f <sub>e</sub>	(f <sub>o</sub> -f <sub>e</sub> ) <sup>2</sup>	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	12	$\frac{40 \times 63}{100} = 25.2$	-13.2	174.24	6.91
(1,2)	28	$\frac{40 \times 37}{100} = 14.8$	13.2	174.24	11.77
(2,1)	51	$\frac{60 \times 63}{100} = 37.8$	13.2	174.24	4.61
(2,2)	9	$\frac{60 \times 37}{100} = 22.2$	-13.2	174.24	7.85
					$\frac{(f_o - f_e)^2}{f_e} = 31.14$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 31.14$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

Tabulated value of  $\chi^2$  at 5% level of significance for 1d.f. is 3.841

Since calculated  $\chi^2 >$  tabulated  $\chi^2$ . The null hypothesis is rejected. Therefore, there is significant difference in the view between tax experts and officers regarding the requirement of additional tax incentives to increase the scope of tax planning.

So, it can be concluded that the opinion of tax experts and officers towards requirement of tax incentives is not same; however both of them suggested to increase the additional tax incentives.

The comments that are provided by the respondents are as follows:-

- Sufficient incentives should be provided to the export, import industries but focused to those industries who export the Nepalese products to abroad.
- Incentives should be provided on the basis of the contribution of the industries in the government revenue.
- Tax rate to industry should be 10% only
- More incentives and facilities should be provided to the Agro based industry.
- The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded, e.g. tax rebate, tax holidays, financial reward, loan facilities, etc.
- To boost up the economic development of the country, tax rate should be reduced to normal rate of 20% for the banking and financial sectors.
- Tourism industries may be the major earner of the foreign exchange and the industries related to the tourism should be provided more incentives and facilities.

### **5.8 Opinion about why tax planning is not widely used:**

To know the opinion of the respondents about the causes of why tax planning is not widely used in Nepal, they were asked the question in which included various alternatives.

Respondents were requested to rank their responses from 1 (most important), 2 to next most important, 3 to third most important and so on. The responses received from the various respondents have been tabulated as follows:

**Table: 5.8**

**Calculation of rank correlation coefficient**

S.N.	Alternatives	X	Rank For X (R1)	Y	Rank For Y (R2)	D=R <sub>1</sub> -R <sub>2</sub>	D <sup>2</sup>
1.	A	62	3	42	4	-1	1
2.	B	32	6	19	6	0	0
3.	C	57	5	77	3	2	4
4.	D	81	1	90	1	0	0
5.	E	66	2	87	2	0	0
6.	F	61	4	40	5	-1	1
7.	G	28	7	18	7		0
8.	H	25	8	16	8	0	0
							$\sum D^2 = 6$

(Note: X refers to tax experts and Y refers to officers)

Where,

A = Tax planning is complicated and boring

B = Tax planning requires professional and highly qualified manpower

C = Tax planning is lengthy and costly

D = Tax administration is not co-operative

E = People are unaware about tax planning

F = There are no more big industries in Nepal

G = Tax incentives are not enough

H = Others

We have formula,

$$r=1-\frac{6\sum D^2}{n(n^2-1)}$$
$$=1-\frac{6 \times 6}{8(8 \times 8-1)} = 0.93$$

Since, the rank correlation coefficient is 0.93. There is higher correlation between the views of tax experts and officers of manufacturing firms regarding incentives provided by ITA. So it can be said that from the respondents' view the most important reason of tax planning is not widely used in Nepal, the tax administration is not cooperative, the next most important reason is "People are

unaware about tax planning” than that of “Tax planning is lengthy and costly” and so on.

In addition to above mentioned tax causes, respondents have responded the following causes that negatively affected tax planning:

- Tax evasion and tax avoidance are highly practiced in Nepal.
- People think tax as a burden rather than their responsibility, so they used to practice tax evasion and avoidance rather than tax planning
- Lack of tax planning culture
- Lack of transparent accounting system; if there is transparent accounting system they can not practice tax evasion and avoidance and the only one option remained is tax planning
- Tax administrators are corrupted; so they encourage the tax payers in evasion and avoidance of tax for their personal benefit
- People think tax is misused; income from the tax are not used in productive and social sector instead they are used in purchasing arms and weapons and also used in the personal benefit of the political leaders and bureaucratic persons. So, instead of tax planning they prefer tax evasion and tax avoidance.

### **5.9 Opinion towards difficulties to plan tax because of complicated or impractical tax incentives:**

To know the opinion of the different respondents about the difficulties to plan tax because of complicated or impractical tax incentives a question, " Do you know any types of difficulties to plan tax because of complicated or impractical tax incentives?" has been asked. Different responses given by the various respondents have been presented in the table given below.

**Table: 5.9**

**Difficulties to plan tax because of complicated or impractical tax incentives**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	22	55	18	45	40	100
Officers	39	65	21	35	60	100
Total	61	61	39	39	100	100

*Source: Opinion Survey, 2012.*

Above table: 5.9 shows that 61% of the respondent have viewed that there are lots of difficulties to plan tax because of complicated or impractical tax incentives However, 45% of the tax experts and 35% of the officers of manufacturing firms have viewed that there is no difficulty to plan tax because of complicated or impractical tax incentives provided by ITA 2058.

**Test of Hypothesis: Chi-square (  $\chi^2$  ) test**

Respondents	Yes	No	Row Total
Tax Experts	22	18	40
officers	39	21	60
Column Total	61	39	100

*Source: Table 5.9*

**Null Hypothesis,  $H_0$ :** There is not significant difference in of the view between tax experts and officers of manufacturing firms regarding the difficulties to plan tax because of complicated or impractical tax incentives.

**Alternative Hypothesis,  $H_1$ :** There is significant difference in the view between tax experts and officers of manufacturing firm, regarding difficulties to plan tax because of complicated or impractical tax incentives.

Test statistics: Under  $H_0$ , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where,  $f_o$ =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$



### Calculation of $\chi^2$

(Row,Column)	$f_0$	$f_e$	$f_0-f_e$	$(f_0-f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1,1)	22	$\frac{40 \times 61}{100} = 24.4$	-2.4	5.76	0.24
(1,2)	18	$\frac{40 \times 39}{100} = 15.6$	2.4	5.76	0.37
(2,1)	39	$\frac{60 \times 61}{100} = 36.6$	2.4	5.76	0.16
(2,2)	21	$\frac{60 \times 39}{100} = 23.4$	-2.4	5.76	0.25
					$\frac{(f_0 - f_e)^2}{f_e} = 1.02$

$$\text{Calculated } \chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 1.02$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

Tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 3.841

Since calculated  $\chi^2 <$  tabulated  $\chi^2$ . The null hypothesis is accepted. Therefore, there is no significant difference in the view between tax experts and officers of manufacturing firms regarding difficulties to plan tax because of complicated or impractical tax incentives.

So, it can be concluded that the opinion of tax experts and officers of manufacturing firms towards requirement of tax incentives is same and both of them think that there are certain difficulties to plan tax because of complicated or impractical tax incentives.

A supplementary question to the respondents who have given their response in positive, they have been asked, an open question, "If yes, please specify," has been asked. Respondents have to specify the areas where the difficulties occur because of complicated or impractical tax incentives. The major responses have been presented below:

- To derive actual deductible pollution control cost, R & D cost is difficulty. Complexity in calculation has made it impractical.

- The rebate period of 10 years is seems to be impractical because the actual benefit from the short rebate period is less than the opportunity cost
- ITA 2058 has no clear provision regarding tax planning
- Tax planner feels impractical tax benefits, tax concessions, etc
- Tax management and administration.

### 5.10 Opinion regarding tax planning helps in productive investment:

To know the opinion of respondents about productive investment due to the tax planning, they were asked the question” Do you think tax planning helps in productive investment?” The responses given by the different respondents have been presented in the table bellow.

**Table:5.10**

#### **Tax planning helps in productive investment**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	31	78	9	22	40	100
Officers	46	77	14	23	60	100
Total	77	77	23	23	100	100

*Source: Opinion survey, 2012.*

Above table: 5.10 indicates that 77% of the whole respondents viewed that the tax planning helps in productive investment and only 23% of the respondents have not agreed with that view. Therefore, most of the respondents are positive towards that tax planning helps in productive investment.

#### **Test of hypothesis: Chi-square ( <sup>2</sup> ) test:**

Respondents	Yes	No	Row Total
Tax Experts	31	9	40
officers	46	14	60
Column Total	77	23	100

*Source: Table 5.9*

**Null Hypothesis, H<sub>0</sub>:** There is not significant difference in of the view between tax experts and officers of manufacturing firms regarding the argument of tax planning helps in productive investment.

**Alternative Hypothesis, H<sub>1</sub>:** There is significant difference in the view between tax experts and officers of manufacturing firms, regarding the argument of tax planning helps in productive investment.

Test statistics: Under H<sub>0</sub>, the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f<sub>o</sub>=Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

### Calculation of $\chi^2$

(Row,Column)	f <sub>o</sub>	f <sub>e</sub>	f <sub>o</sub> -f <sub>e</sub>	(f <sub>o</sub> -f <sub>e</sub> ) <sup>2</sup>	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	31	$\frac{40 \times 77}{100} = 30.8$	0.2	0.04	0.13
(1,2)	9	$\frac{40 \times 23}{100} = 9.2$	-0.2	0.04	0.43
(2,1)	46	$\frac{60 \times 77}{100} = 46.2$	-0.2	0.04	0.09
(2,2)	14	$\frac{60 \times 23}{100} = 13.8$	0.2	0.04	0.29
					$\frac{(f_o - f_e)^2}{f_e} = 0.94$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 0.94$$

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

Level of significance, α = 5% = 0.05

Tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 3.841

Since calculated  $\chi^2 <$  tabulated  $\chi^2$ . The null hypothesis is accepted i.e. alternative hypothesis is rejected. Therefore, there is no significant difference in the view between tax experts and officers of manufacturing firms regarding the argument of tax planning helps in productive investment..

### **5.11 Opinion about tax incentive has helped to plan tax in Industrial Sector:**

To know the view of the respondents about present tax incentives which has helped to plan tax in industrial sector a question, "To what extent the present tax incentive has helped to plan tax in industrial sector?" has been asked. Four options were provided and were requested to tick upon one option. The responses from various respondents are presented below:

**Table 5.11**

#### **Tax incentive has helped to plan tax in Industrial Sector**

Alternatives	No. of respondent	%
a) Very much	14	14
b) Sufficient	30	20
c) Somehow	45	45
d) Not at all	11	11
Total	100	100

*Source: Opinion survey, 2012.*

The above table: 5.11, clearly shows that most of the respondents are not satisfied with the argument related to present tax incentive which has helped to plan tax in industrial sector. 45% of the respondent think that current tax incentives has helped 'somehow' to plan tax and only 20% of the respondents argue that the current tax incentives is sufficient. 11% respondents are very pessimistic and 14% respondents are very optimistic who feel that the present tax incentives are very much helpful to plan tax. Thus, it can be concluded that current tax incentive is not enough helpful to plan tax.

### **5.12 Tax Incentives are enough to extend the scope of Tax planning in rural area:**

In order to know the respondents opinion regarding the tax incentives to extend the scope of tax planning to initiate investing in rural areas of Nepal, they were asked the question, "Do you think that tax incentives are enough to extend the scope of tax planning in rural area?". The respondents have to

answer either 'Yes' or 'No'. The responses of the various respondents have been presented in the following table.

**Table: 5.12**

**Opinion about provision to invest in rural areas of Nepal**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	29	73	11	22	40	100
Officers	18	30	42	70	60	100
Total	47	47	53	53	100	100

*Source: Opinion Survey, 2012.*

Above table: 5.12, shows that 73% of the tax experts and 30% of the officers accept that the facilities have initiated enough to invest in rural areas of Nepal in respect to tax planning. In overall, only 47% of the respondents have accepted and remaining 53% have not accepted.

**Test of Hypothesis: Chi-square (  $\chi^2$  ) test**

Respondents	Yes	No	Row Total
Tax Experts	29	11	40
Officers	18	42	60
Column Total	47	53	100

*Source: Table 5.11*

**Null Hypothesis,  $H_0$ :** There is no significant difference in the view between tax experts and officers of manufacturing firms, regarding provision to initiate investing in rural areas of Nepal.

**Alternative Hypothesis,  $H_1$ :** There is significant difference of the view between tax experts and officers of manufacturing firms, regarding provision to initiate investing in rural areas of Nepal.

Test statistics: Under  $H_0$ , the test statistic is

$$\chi^2 = \frac{(fo - fe)^2}{fe}$$

Where,  $f_o$ =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

### Calculation of $\chi^2$

(Row,Column)	$f_o$	$f_e$	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	29	$\frac{40 \times 47}{100} = 18.80$	10.2	104.04	5.53
(1,2)	11	$\frac{40 \times 53}{100} = 21.20$	-10.2	104.04	4.91
(2,1)	18	$\frac{60 \times 47}{100} = 28.20$	-10.2	104.04	3.69
(2,2)	42	$\frac{60 \times 53}{100} = 31.80$	10.2	104.04	3.27
					$\frac{(f_o - f_e)^2}{f_e} = 17.4$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 17.4$$

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

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

Tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 3.841

Since calculated  $\chi^2 >$  tabulated  $\chi^2$ , the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the officers of manufacturing firms regarding provision to initiate investing in rural areas of Nepal.

In conclusion, It can be said that tax experts are agree that the provision provided by ITA are enough to initiate investing in rural areas of Nepal but the officers and proprietors are not agree with this argument.

### 5.13 Opinion about taxpayers are enjoying the loopholes of act:

To deals with this issue, the respondents were asked the question "Do you think that the taxpayers are enjoying the loopholes of the act?". The responses drawn from the respondents have been arranged in table bellow.

**Table: 5.13****Opinions towards the taxpayers are enjoying the loopholes of act:**

Alternatives	Tax Experts		Officers		Total
	No	%	No	%	
Yes	31	78	22	35	53
No	9	22	38	65	47
Total	40	100	60	100	100

*Source: Opinions Survey, 2012.*

From the above table: 5.13, we can understand that nearly 78% of tax experts have accepted that tax payers are enjoying the loopholes of the act but only 35% of the officers agree with the argument and 65% of them have not agree that

In conclusion, according to the view of the officers, tax payers are suffering from the tax administration due to the lack of knowledge about the tax planning and various provisions included in the act.

**5.14 Opinion regarding to what extent plan tax in Nepal:**

In order to know the opinion about the extent of tax planning in Nepal, one question "In your opinion, to what extent industrialist plan tax in Nepal." has been asked. The respondents have to select among the given alternatives. The response of the various respondents is presented in the following table.

**Table 5.14****Tax planning trend in industrial sector of Nepal**

Respondents Responses	Tax Experts		Officers		Column Total	
	Number	%	Number	%	Number	%
Not at all	4	10	4	7	8	8
Too little	12	30	34	56	46	46
To some extant	21	53	18	30	39	39
Significantly	3	7	4	7	7	7
Extremely	0	0	0	0	0	0
Row Total	40	100	60	100	100	100

*Source: Opinion Survey, 2012.*

From the above table: 5.14, it indicates that most of the respondents think the tax planning is not widely used tool in Nepal. Officers of manufacturing firms are more pessimistic than tax experts. In total, 46% viewed 'Too little' and 39% viewed 'To some extent' in the use of tax planning. 0% of the respondents have voted for 'Extremely' use of tax planning. Similarly, only 7% and 8% of the respondents viewed that tax planning is 'significantly' and 'not at all' used in Nepal.

In conclusion, the data shows that the tax experts and officers agree with the view neither tax is planned extremely nor planned at all in Nepal.

### **5.15 Opinion regarding 10 year's rebate period:**

In order to know the opinion of the respondent about the 10 years rebate period a question "Do you think the period of 10 years tax rebate is sufficient to increase the scope of tax planning?" The respondents have to respond either 'Yes' or 'No'. Responses of the various respondents have been presented in the table below.

**Table: 5.15**

#### **Opinion about 10 yrs. tax rebate period**

Alternatives	Yes		No		Total
	Nos.	%	Nos.	%	
Tax Experts	25	62	15	38	40
Officers	12	20	48	80	60
Total	37	37	63	63	100

*Source: Opinion Survey, 2012.*

From the above table: 5.15, it is clear that 62% of the tax experts agree that the 10 years rebate is sufficient but only 20% of officers of manufacturing firms agree with this view. In total, 37% of the respondents agree that 10 years rebate period is sufficient but 63 % of whole respondents do not agree with this view.



### Test of Hypothesis: Chi-square ( $\chi^2$ ) test

Respondents	Yes	No	Row Total
Tax Experts	25	15	40
Officers	12	48	60
Column Total	37	63	100

Source: Table 5.13

**Null Hypothesis,  $H_0$ :** There is no significant different in the view between tax experts and officers, regarding sufficiency of 10 years tax rebate period.

**Alternative Hypothesis,  $H_1$ :** There is significant difference in the view between tax experts and officers, regarding sufficiency of 10 years tax rebate period.

Test statistics: Under  $H_0$ , the test statistic is,

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where,  $f_o$ =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

#### Calculation of $\chi^2$ :

(Row,Column)	$f_o$	$f_e$	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	25	$\frac{40 \times 37}{100} = 14.8$	10.2	104.04	7.03
(1,2)	15	$\frac{40 \times 63}{100} = 25.2$	-10.2	104.04	4.13
(2,1)	12	$\frac{60 \times 37}{100} = 22.2$	-10.2	104.04	4.69
(2,2)	48	$\frac{60 \times 63}{100} = 37.8$	10.2	104.04	2.75
					$\frac{(f_o - f_e)^2}{f_e} = 18.6$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 18.6$$

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

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

Tabulated value of  $\chi^2$  at 5% level of significance for 1 d.f. is 3.841

Since calculated  $\chi^2 >$  tabulated  $\chi^2$ , the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the officers regarding sufficiency of 10 years tax rebate period.

### 5.16 Opinion about more tax rebate period required:

A supplementary question has been asked to the negative respondent of the above question. The view of the various respondents is presented below.

**Table: 5.16**

#### **Opinion about more tax rebate period**

Alternatives (in yrs.)	Tax Experts		Officers		Total
	Nos.	%	Nos.	%	
15	8	53	4	8	12
20	3	20	6	12	9
25	3	20	8	17	11
30	1	7	10	21	11
Others*	0	0	20	42	20
	15	100	48	100	63

*Source: Opinion Survey, 2012.*

*\*Includes more than 30 years*

From the above table: 5.16, it is clear that most of the negative respondents of tax expert are suggesting that the tax rebate period should be 15 years. In opposition to the tax experts, most of the officers have responses the tax rebate period should be more than 30 years.

*Note : Although the questionnaire was developed on the basis of the ITA 2058 and analyzed as well, the rebate for the newly established industries( except negative listed industries) which are operating in 22 remote districts has changed into fully exemption for 10 years..*

### 5.17 Opinion regarding the industry to be included in special industry:

To deal with this issue the respondents were asked the question "Do you know any industry that should be included in special industry but not included yet to increase the scope of tax planning?". The responses obtained from them have been presented in the following table.

**Table: 5.17**

#### **Opinion Regarding the Industry which should be Included in Special Industry**

Alternatives	Tax Experts		Officers		Total
	Nos.	%	Nos.	%	
Yes	6	15	14	23	20
No	34	85	46	77	80
Total	40	100	60	100	100

*Source: Opinions Survey, 2012.*

From the table: 5.17, it is clear that only 15% of tax experts suggest that other industry also should be included in special industry whereas 23% of the officers of manufacturing firms have said that there are other industries which should be included in special category. Rest of the respondents is not agreeing with this view.

Positive respondents of the above question demanded the other industries should be included in the special industry which is as follow:

- Tourism and its related industries
- communication network business
- Hydropower sector
- Software development business
- Agro-based Industries
- Professional and technical educational service industries
- Alcohol and beer industries which export the product abroad

### **5.18 Opinion about provisions which are not enough in Tax Planning:**

In order to know the view of the respondents about the insufficiency of the current tax provision they were asked a question, "In your view which provisions are not enough to strengthen the scope of tax planning". Various respondents have mentioned that the following provisions are not enough to plan tax.

- Tax holidays to industries established in various region of the country i.e.10 year's tax rebate.
- Tax rebate is not sufficient.
- Rate of depreciation.

### **5.19 Suggestions and recommendations about Tax Incentives and Tax Planning in Nepal:**

In order to know the suggestions and recommendations of the various respondents about tax incentives and tax planning in Nepal, they were asked a question "what are your suggestions and recommendations regarding tax incentives and tax planning in Nepal?" The suggestions and recommendations given by the various respondents are presented as follow.

- Tax Act should be clear and easier to understand. So, each industrialist can understand the tax incentives easily and can plan tax, using these incentives.
- Tax incentives and facilities should be provided in the new horizons, fields and areas of the Nepalese economy.
- Except some provisions, such as only 10 years tax rebate, the tax incentives provided by ITA 2058 are sufficient. Tax planning culture should be made which requires professionalism in tax related matter which is lacking in Nepal.
- Tax administrators should encourage tax planning instead of discouraging.
- Provisions of income tax Act must be clear with regard to tax planning.

- Tax personnel should be honest in their work, they should not encourage tax evasion and tax avoidance and tax payer also should be honest and responsible on their tax liabilities.
- Government should encourage the tax planning scheme, because these are the facilities extended by the law to assess.
- Culture of tax planning should be made.
- Tax evasion and tax avoidance should be discouraged and punished.
- Professionalism should be increased in tax planning.
- Tax act and rules shouldn't be changed frequently. Government should motivate the industries and should also spread the knowledge about tax incentives and facilities. Government should provide tax awareness training and should produce various documents related to tax.
- Minimize the tax rate and widen the coverage of tax.
- Tax planning is helpful for industrial investment but major considerations are stable government policy and creation of industrial environment. If these requirements are fulfilled, whatever incentives and facilities provided by ITA seems some how sufficient.
- Minimizes the tax rates for banking, insurance and financial institutions in order to boost up foreign investment.

### **5.20 Major Findings:**

Followings are the major findings of the opinion survey which is conducted by obtaining the data's from tax experts and officers of manufacturing firms.

- i. The tax incentives & facilities provided by ITA, 2058 seems to be sufficient, however, further incentives and scientific dealings are still required.
- ii. Tax planning is a tool of reducing tax burden of officers, taxpayers and investors. The industrialist can understand the importance of tax planning and think that tax planning minimizes the tax burden and tax

amount to be paid to the government. And it also indicates that various genuine industrial organization have planed tax.

- iii. The present ITA doesn't provide sufficient scope of tax planning.
- iv. Tax incentives and tax planning are positively correlated. That means tax incentives encourage the tax planning.
- v. In order to increase the scope of tax planning, addition tax incentives are required. Further incentives are need to encourage export industries, to promote the agro-based industries and to develop tourism industries.
- vi. Those industries should be rewarded which have contributed significantly with respect to economic growth, employment and income distribution. Such industries should be provided with tax rebate, tax holidays and loan facilities.
- vii. The main reasons that the tax planning is not widely used in Nepal are tax administration is not cooperative, tax planning is lengthy and costly, and people are not aware about tax planning.
- viii. Findings show that there are lots of difficulties in tax planning because of complicated or impractical incentives. For examples:
  - There is no clear provision in ITA 2058 regarding tax planning.
  - It is difficult to derive actual deductible pollution control cost and R& D cost. Complexity of calculation has made it impractical.
  - The rebate period of 10 years seems to be insufficient because short period rebate is less than the opportunity cost.
  - Difficulties lie in tax management and tax administration.
  - Tax planners find tax benefits and tax concession impractical.
- ix. Current tax incentives are not helpful enough to plan tax.
- x. There are different argument of the respondents on their views towards the incentives and facilities to be provided to the investors in the rural areas of Nepal to enhance tax planning. More than half of the respondent's opine that sufficient incentives and facilities should be

given to the investors whoever is willing to invest in the rural areas, whereas rest of them are against this argument.

- xi. In the Nepalese industries, tax is neither extremely planned nor they are unplanned.
- xii. 10 years rebate is not enough to increase the scope of tax planning in the remote area for the special industries.
- xiii. Tax concession of 25%, 30, and 50% granted to the industries established in the underdeveloped, undeveloped and remote areas respectively is not enough and it should be increased to 30%, 50%, and 100% respectively.
- xiv. Tourism industries, communication network business, hydropower sector, software development business, agro-based industries, technical educational service, brewery should be included in the special industries.
- xv. Tax holidays to industries established in various region of the country or tax rebate and rate of depreciation should be increased.

## **CHAPTER VI**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **6.1 Summary**

Revenue is the backbone of economic system of any state which directly affects the economic growth and development of state. The government conducts and regulates various business organization with the money collected in the form of tax. In order to reduce the poverty problem of country, it is very necessary to establish and grow up the industries. Till now, Nepal is following traditional agriculture – based industry and which has very low contribution to GDP. Industrialization is the foundation for the economic development of the country. For this purpose, tax system should be practical and effective. Tax system should be motivating to establish new industries and convenient to run the business for long time. Tax should not be as a financial burden imposed by the state to the people. It should be felt as a moral responsibility and prestigious duty by the business organization. It is impossible to make economic progress if the government does not play vital role to establish new industries. Nepal has very few large scale industries. Only cottage industry and other small scale industries are any how running in Nepal. Due to lack of effective policy and encouraging law government has been incapable to establish new industries and to encourage the existing industries. It is necessary to develop industries to promote the economic status of the country. For the promotion and expansion of industries conducive environment and political stability is required. Government should provide such environment to the industries. Sufficient incentives and Subsidies should be provided to investor such incentives encourage in the establishment of new industries and operation of existing industries. Income tax incentive is one of the major tax incentives to attract the investors and to establish industries. Nepal has been practicing various tax incentives programs, but still the industrialization process is slow. The income tax act 2058 has provided various tax incentives and facilities to attract the investors. However, number of industries is very less in Nepal.



A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Especially, the direct tax is a burden to the taxpayer because it is not shift able. Since it is painful, every one wants to reduce the tax liabilities as far as possible. Planning is the way of making systematic and easy of any task previously. So, tax incentives are the main factors to encourage or promote tax planning and ultimately to promote the business and the industries of any country.

Various books, articles, dissertations and other reference materials are reviewed in the course of this study. Almost all of the books are of descriptive in nature and fully based on the course of various level of syllabus. No one has studied in the incentives and facilities and its impact on tax planning under ITA 2058 to industries. So, the researcher has selected the unique topic to study.

Various incentives of the income tax to industries have been studied to find out the impact of these incentives on tax planning to the industries. Meaning of tax, classification of taxes, merits and demerits of both direct and indirect taxes, heads of incomes, concept of tax incentive and facilities, concept, feature, scope of tax planning etc. have been studied in Conceptual Framework of this study.

Mostly this study is based on primary data and very few of secondary data has been used in this study. Minimum use of secondary data is due to the unavailability of related material in secondary sources. The primary data is based on opinion survey of various two groups' viz. tax experts and officers of manufacturing firms. Tax experts consisted different sector of expert. Officers include officers of different manufacturing firms. A set of questionnaire has been developed and distributed to various respondents. The data have collected from 40 tax experts and 60 officers of manufacturing firm. Statistical tools like simple average; percentage, correlation and chi-square test for hypothesis have been used in this study to analyze and interpreted the various data collected. Finally, this study has been completed with the achievement of the various objectives stated.

## 6.2. Conclusion

On completion of this research study I have reached to the conclusion which is stated below.

- i. Incentives and facilities provided by a ITA seem to be sufficient, however, some Incentives programs should be brought to aware and sensitize the officers of manufacturing firms.
- ii. Tax planning is a tool for reducing tax burden, tax avoidance and tax evasion.
- iii. Additional tax incentives are required to increase the scope of tax planning. Further incentives are needed to encourage export industries, to promote the agro- based industries and to stabilize the tourism industries.
- iv. Tax incentives and tax planning are closely related each other and they have positive correlation because tax incentive encourages tax planning.
- v. The most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is people are unaware about tax planning then tax planning is lengthy and costly and so on.
- vi. ITA 2058 has no clear provision in all aspect of tax planning. So, there are lots of difficulties to plan tax.
- vii. Although rural area is addressed by the tax incentives and facilities but still it is not seems to be sufficient to invest in rural areas of Nepal in respect to plan tax
- viii. Tax planning terms is in practice in Nepalese industries but it simply means to reduce tax amount to be paid to the government. It can be tax avoidance, tax evasion or any way, to minimize tax burden.
- ix. 10 years tax rebate is not sufficient to increase the scope of tax planning in the remote area for the special industries.
- x. Tax concession of 25%, 30% and 50% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient

- xi. There are much more difficulties to implement tax planning in Nepal. The causes are not friendly tax administration, insufficient tax incentives and facilities and difficult terms of tax act that are rarely understood by the general people.
- xii. There are other industries that should be included into the special industries Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.
- xiii. Tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.
- xiv. In conclusion, tax incentives are the fundamental element to strengthen the practice of tax planning. It can also be said that tax planning can not even be imagined without tax incentives. However tax only is not important factor industrial growth, good entrepreneurship practice play vital role.

### **6.3 Recommendation:**

On the basis of analysis and interpretation of data, the following recommendation can be suggested.

- i. Tax incentives and facilities should be provided systematically to the industrial organization to boost of the Nepalese economy.
- ii. Tax rates should be reduced for banking, insurance and the financial institution in order to attract foreign investment.
- iii. Government should recognize the ethic of tax planning and different tax rates should be applied considering the nature of business and like of business, so that business man can choose the business which he prefers.
- iv. Like in individual income, there should allow two slabs in tax rate to business organization also.

- v. To maximize the scope of tax planning, tax personnel and tax payers should be honest; government should encourage the tax planning scheme, because these are the facilities extended by the law to the assessee.
- vi. Tax planning is not a new term for the business organizations of Nepal but because of knowledge lacking, and unhealthy practice of tax evasion and tax avoidance it is not functioning as desired. So, effective guideline, orientations and co-operation should be provided by the authorities.
- vii. The terms that are used in ITA are very complex and confusing. So, the terms should direct clear vision, clear-cut language should be used in the act i.e. common people can understand the tax incentives and facilities provided by the ITA.
- viii. The main constraint for tax planning is the behaviors of tax administrator. Tax payers expect co-operation and good guidance from tax administration but the tax administration is not like that. So, tax administration should be more liberal and co-operative that reduces tax avoidance and tax evasion.
- ix. Tourism and its related industries, communication network business, hydropower sector, software development business, agro-based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.
- x. Tax concession of 25%, 30% and 50% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient and it should be increased to 30%, 50% and 100% respectively.
- xi. 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.
- xii. In one way tax planning is a way of maximum utilization of tax incentives and tax facilities provided by ITA and reducing the tax

burden. In other way, it is a factor to empower industrial practice. So, tax incentive should be recommended to increase and raise the tax planning practice.

*Note : Although all the assumptions are based on the ITA 2058 and analyzed as well, the rebate for the newly established industries(except negative listed industries) which are operating in 22 remote districts has changed into fully exemption for 10 years.*

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## **APPENDIX - I**

Dear sir/madam

I have sent this questionnaire concerned with a research on "**analysis of tax incentives and its effects on tax planning for industrial sector under ITA 2058**". Your kind help and valuable suggestions are essential for completion of my thesis of MBS. I would very much appreciate if you could spare some of your valuable time in filling it.

I also assure to you that the information provided by you will be exclusively used for academic research purpose only and will be kept confidential. I am looking forward for your valuable cooperation and support.  
Thanks!

**Research Supervisor**

**Dr. Gopi Nath Regmi**

**Central Department of Management**

**Your Sincerely**  
**Gopal Bahadur Shrestha**



## Questionnaires

Please put tick mark ( ) on your answer if the question is provided with choice alternatives and put in order of preference from 1 (most important alternative) to last number if there are rank alternatives.

1. Do you think the incentives provided by ITA 2058 to industries are sufficient to attract new industries?

a) Yes {    }                      b) No {    }

2. Do you accept that tax planning is one of the tools to reduce tax burden?

a) Yes {    }                      b) No {    }

3. Do you think the present income tax act has provided sufficient scope in tax planning?

a) Yes {    }                      b) No {    }

4. If Yes, Which areas are most important? (Please Rank from 1....)

- |                                      |        |
|--------------------------------------|--------|
| a. Pollution Control Cost            | {    } |
| b. Location decision                 | {    } |
| c. Research and Development Cost     | {    } |
| d. Carry Forward                     | {    } |
| e. Capital Budgeting ( Depreciation) | {    } |
| f. Inter head Adjustment             | {    } |
| g. Any other (Please Specify).....   | {    } |

5. "Tax incentives and tax planning are positively correlated." or "more tax incentives more tax planning". Do you agree with statement?

a) Yes {    }                      b) No {    }

6. Is there any other incentive required in ITA, 2058 which increases the scope of the Tax Planning?

a) Yes {    }                      b) No {    }

7. Why tax planning is not widely used in Nepal although sufficient tax incentives seem to be provided ITA, 2058 (Please rank.....)

- a. Tax Planning is complicated and boring. {    }
- b. Tax Planning requires professional and highly qualified manpower. {    }
- c. Tax Planning is lengthy costly. {    }
- d. Tax administration is not co-operative. {    }
- e. People are unaware about tax planning. {    }
- f. There are no more big industries in Nepal. {    }
- g. Tax incentives are not enough. {    }
- h. Others. (If any) Please Specify..... {    }

8. Do you know any types of difficulties to plan tax because of complicated or impractical tax incentives?

a) Yes {    }                      b) No {    }

If Yes, Please specify

.....  
.....  
.....  
9. Do you think Tax Planning helps in productive investment?

- a) Yes {    }                      b) No {    }

10. To what extent the present tax incentive has helped to plan tax in industrial sector? Please, tick.

- a) Very Much                      b) Sufficient

- d) Somehow                      d) Not at all

11. Do you think that tax incentives are enough to extend the scope of tax planning in rural area?

- a) Yes {    }                      b) No {    }

12. Do you think that the taxpayers are enjoying the loopholes of the Act?

- a) Yes {    }                      b) No {    }

13. In your opinion, to what extent industrialist plan tax in Nepal?

- a) Not at all                      b) Too little

- c) To some extent              d) Significantly

- e) Extremely

14. Do you think the period of 10 years tax rebate is sufficient to increase the scope of tax planning?

- a) Yes {    }                      b) No {    }

15. If no, what may be the tax rebate period?

- a) 15 Years                      b) 20 Years

- c) 25 Years                      d) 30 Years

e) Others (If any) Please specify.....

16. Do you know any industry that should be included in special industry but is not included yet to increase the scope of tax planning?

- a) Yes {    }                      b) No {    }

17. In your view which provision is not enough to strengthen the scope of tax planning?

Please, identify.

.....  
.....  
.....

18. What are your suggestions and recommendations regarding tax incentives and tax planning in Nepal?

.....  
.....  
.....

**APPENDIX-II**  
**LIST OF THE TAX EXPERTS**

<b>S.N.</b>	<b>Name</b>	
1	Janak Raj Sharma	IRD officer, New Road, Kathmandu
2	Lawa Raj Thapa	IRD officer, Lalitpur
3	Gyanendra Rimal	Account officer, Pension office
4	Bimal Sapkota	IRD officers, Lalitpur
5	Ram Hari Tripathi	Advocate, Supreme Court
6	Sunil Man Shakya	Advocate
7	Sunil Acharya	Advocate
8	Hom Prasad Luitel	Section officer, MICS
9	Ram Hari Aryal	WTO Section, MICS
10	Girija Prasad Koirala	Member, Tax Committee, ICAN
11	Kosha Hari Niroula	District Attorney, Kathmandu
12	Rohit Shrestha	Chartered Accountant
13	Bhaskar Shingh	Chartered Accountant
14	Khuma Prasad Aryal	Chartered Accountant
15	Dhruba Pd. Bhandari	Chartered Accountant
16	Sabin Premi Ghimire	Tax officer, IME
17	Man Singh Ghishing	Chartered Accountant
18	Kedar Man Shingh Shrestha	Senior Tax Expert, FNCCI
19	Rita Thapa	Depatu Director, ICAN
20	Janajan Tripathi	Section officer, Revenue Division
21	Mahendra Man Shrestha	IRD officer, Lalitpur
22	Kum Pd. Chudal	IRD officer, Lalitpur
23	Navaraj Bhandari	IRD officer, Lalitpur
24	Nirmal Kumar Siwakoti	IRD officer, Lalitpur
25	D.D. Bhatta	Section officer, Revenue Division, MOF

26	Prakash Kumar Khatri	Andit officers, OAG	
27	Dhuniraj Shastri	Tax officer, IRD office, Babarmahal	
28	Madan Dahal	Tax officer, IRD, Babarmahal	
29	Gopi Mainali	Tax officer, revenue Administration training centre	
30	Than Prasad Pangani	Chief tax officer, LTO	
31	Bishnu Pd. Pandey	Chartered Account	
32	Lal Bahadur Khatri	IRD officer, Lalitpur	
33	Ram Sharan Pudashani	IRD officer, Lalitpur	
34	Kabi Raj Poudgal	IRD officer, Lalitpur	
35	Bidur Karki	Recent Researcher, On Tax manning	
36	Nirmal Kumar Siwakoti	IRD officer, Lalitpur	
37	Prem Singh Dhami	Advocate	
38	Ramesh Maharjan	Advocate	
39	Sagar Bagale	Chartered Accountant	
40	Mr. Bisnu Prasad Nepal	Chief Tax officer IRD-I	

**List of sample manufacturing firms and their number of officers**

<b>S.N.</b>	<b>Name of Firms</b>	<b>Numbers of officer</b>
1	Chaudhari Group Limited, FUDCO, Sanepa, Kathamndu	5
2	Shree Bhrikuti pulp and paper Nepal Ltd, New Baneshwor, Kathmandu	3
3	Himalayan Distillery Limited, Jwalakhel, Kathmandu	4
4	Bottlers Nepal Limited, Balaju, Kathmandu	4
5	Nepal Banaspati Ghee Udyog, Limited Kalimati	4
6	Sanghai Plastic industries Pvt. Ltd. Lalitpur	2
7	J.P. Carpet Industries, Hatigauda, Ktm.	1
8	Himalayan snacks and Noodles Pvt. Ltd. Ktm	1
9	Mahabaudha Silpa Bhaudar, Lalitpur	1
10	Nepal organo Rubber factory, Kathmandu	3
11	TNP carpet industries Pvt. Ltd. Jorpati, Kathmandu	1
12	Everest Rosin and turpentine, Jorpati, Kathmandu	1
13	JK Garment Industries, Jorpati, Kathmandu	2
14	Kangza Carpet Ind (Pvt), Jorpati, Kathmandu	1
15	TNR carpet industries, Jorpati, Kathmandu	1
16	Himalayan Rug Industries, Bouddha, Kathmandu	2
17	Paradise carpet Industries, Pvt. Ltd, Boudha, Kathmandu	2
18	Herbs production and processing co. Ltd. Kathmandu	2
19	NP Rug Industries, Boudha, Kathmandu	1
20	Royal drugs Limited, Ktm	2
21	Nepal Metal Industries, Balaju, Kathmandu	3
22	S.S. Textile Lalitpur	2
23	Power Tec- Nepal, Lalitpur	2
24	Panchakanya Group, Limited, Kathmandu	4

25	Gorakhakali Rubber Udhog, Limited, Kalimati Soltimod, Ktm	3
26	Dairy Development corporation, Lainchour, Kathmandu	1
27	Aakash Plastic Industries, Lalitpur	2