

CHAPTER I

INTRODUCTION

1.1 General Background

A government requires sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. From ancient time to modern age, government fulfills its responsibility by spending a certain amount towards its people. In the ancient time government managed its fund by internal resources and spends in the war now the time has changed; from government to people all know their responsibility. Government is very careful towards its social responsibility and people themselves are too much concerned towards nation. They want to contribute a little amount of their income to the government and the government invests for peace and security, education, development etc.

Today, to achieve the more demanding social welfare of its nation the government must have sufficient fund. For this the government has two alternatives, one is internal and the other is external resources. Internal resources are convenient, certain and long different sources. In the world, most of the developing countries are well experienced regarding external sources and its negative impact to the economy. It is because nobody wants to invest a huge amount without benefit. So the best alternative for the nation as to mobilize internal sources that is certain, convenient and one should not beg its hand to other. (Bhattarai and Koirala, 2010:3).

The main and reliable internal source is tax. It is compulsory contributed by a person without hoping and personal benefit.

According to Findlays Shirras "Taxes are compulsory contribution to the public authorities to meet the generate expenses of government which have been incurred for the public good and with out reference to special benefits."

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

Prof. Seligman defined tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."

The tax can be divided into two parts, one internal source and another external source. Internal sources of funds are tax and non tax revenue. Among them tax is the most important source of government revenue because it occupies largest and part of total revenue. Tax is not a fine. Government collects tax with the permission of legislature to fulfill financial needs of the state. It is a compulsory payment to government for the composition of public expenditures. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of tax is to distribute wealth and income equally.

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

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

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

Income tax helps to prevent the concentration of wealth in a few hands by imposing higher rate to those persons where income is high and lower rate to those persons whose income is less it also helps to increase the government revenue, which can use for good governance, to develop infrastructure, provide general services etc. Income tax is not only essential for collecting government revenue but also to control over consumption, to promote saving and to generate more employment. Income tax system was introduced in England in 1977 to manage the War. Similarly, corporate income tax originated in USA in 1862 in order to manage the civil war. In 1909 federal corporation income tax was originated in Nepal. Income tax was imposed in 1959 by enacting Business, Profit and Remuneration Tax.

In earlier days both individual and corporate tax was taxed on progressive rate. Now the income tax Act 2058 B.S. has been implementing since 2056 Chaitra. Income tax plays a vital role in revenue collection in National economy. It is a tool for achieving maximum social economic objectives as laid down by the constitution of Nepal. Today tax is the major instrument for the government to achieve the rate in economic growth and to increase in capital formulation. Ancient tax system was based on Vedas, Smritis, and Purans directives propounded by Manu, Yagyabalaka, and

Chanakya etc guided the taxation system. At that time the principle of collecting tax from the people was imposing of tax without harming the activities of the people.

Industry

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

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

Industry in the sense of manufacturing became a key sector of production and labour in European and North American countries during the Industrial Revolution, which upset previous mercantile and feudal economies through many successive rapid advances in technology, such as the steel and coal production. It is aided by technological advances, and has continued to develop into new types and sectors to this day. Industrial countries then assumed a capitalist economic policy. Railroads and steam powered ships began speedily establishing links with previously unreachable world markets, enabling private companies to develop to then unheard of size and wealth. Following the Industrial Revolution, perhaps a third of the world's economic output is derived from manufacturing industries more than agriculture's share.

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

Industrial Development

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

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

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

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

Today industrialization and foreign trade are the well - known phenomenon for economic growth throughout the world. They are the effective means of achieving economic development in the developing countries like Nepal. Nepalese economy is agriculture dependent. More than 66% of economical active population is dependent on agriculture. Agricultural contribution for G.D.P. is nearly about 31% of total G.D.P. Industrialization is an important factor economic and social development. In fact industrialization and development are two sides of a coin. Economic development is not possible unless industrialization takes place. Industrialization is a measuring rod whether a country is in prosperity or not industrial development has multiplier effect on the economy in the sense that it not only provides goods and services but also creates employment opportunities.

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

Growth of Industries in Nepal

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

The Biratnagar Jute Mills set up in 1936 in collaboration with India marked the beginning of organized industry in the country. In the years that followed industrial growth was accelerated. Industries like the Morang Cotton Mills (1941), the Morang Sugar Mills (1946) and Raghupati Jute Mills (1946) were set up. All these industries were established haphazardly in order to reap quick benefits from the shortages of consumer goods created by the Second World War. Within a period of 10 years (1936-1945) as many as 63 industrial units were established with a total capital investment of Rs. 72 million of which only Rs. 2 million was invested by Nepalese businessman. After the end of Second World War, most of the industries were liquidated since they could not sustain the post war recessionary effects. These short lived industries were thus wartime babies whose demise caused a big set back to the process of industrialization.

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

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

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

Within the fourth plan in the year 1973 a new industrial policy was formulated in the year 1973. In 1981 a new industrial policy was declared and the main features

of the policy were that all industries were kept open to the private sector except for the defense industries.

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

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

These establishments paid Rs. 3.058 million as wages and salaries including prerequisites to their employer, but as per the census survey of 1996-97 no. of establishments decreased to 3557 making jobs to 196708 people. Total wages and salaries distributed to the gainful employment were found to be 4058069 thousand Rs. which is 21929,718 thousands Rs. more than previous year. The census value added equals to 21875315 thousand Rs. according to the survey of small manufacturing establishment in Nepal made by Central Bureau of statistics for the year 2002 number of manufacturing establishment in Nepal were 43671 providing jobs to 121270 people in the year 1999-2000. This establishment paid 1104167 thousand Rs. as wages and salaries. Census input and output during the year 1999-2000, were 192705302 thousand Rs. and 25945645 thousand Rs. respectively and census value added was 6675113 thousand Rs. in the year 2000 - 01 the number of new industries registered in the Department of Industries were 148 which were less than previous year 1999-2000. Among total registered industries in the year 2004-05 there were 143 private limited, 10 in public sector and one each of partnership and proprietorship.

Today, effective implementation of the national economic policies facilitates to enhance of manufacturing industries, promotion of export and import of goods and services. To speed the phase of economic development various act and regulations were enacted with the motive privatize and liberalize industries. Government has adopted the policy of permitting 1000 foreign investment for large and medium scale

industries. Government has adopted one window policy to facilitate the industrial investment but for the proper growth of industries sufficient infrastructure is a must. Various public enterprises established during the planning era are not good condition. Frequent changes in government policies, political instability and other deteriorate situations are the basic reasons for the negative performance of industries. Negative performance gives low production and low income. So the problem creates in collection of tax which gives negative result in the field of revenue collection. Thus clear and simple policies providing definite facilities for a longer period of time are the primary requisites for industrial development (Agrawal, 2005:27).

1.2 Significance of the Study

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

The importance of industrial development for the economic needs not to be exaggerated one of the remarkable contributions made by industrial sector for the economic is generation of government revenue through taxes. Total tax revenue generated comprises of high percentage of the levies of the industry. Moreover tax revenue contributes to three quarter to the total revenue of our economy. So it has become very necessary to streamlining has to be done in such a way that it has positive impact upon the growth of industrial sector. There is a strong inter relationship among taxation policy business and economic growth.

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

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

1.3 Statement of the Problem

A sound tax system is one of the essential requisites for an economic development. Thus different taxation policies have been introduced and renewed on timely basis with a view to mobilize internal resources for the development industrial sectors and consequently contribute to economic growth and reduce dependency on foreign loans in Nepal. However, the purpose of the taxation policy has not been fulfilled which turns the stimulating industrial growth. Some tax payers complain about the lack of clarity, predictability and consistency in tax laws across time and with other existing regulations. It has been observed that tax laws change frequently and they have been unable to predict the way by which these changes will go.

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

- Does present taxation policy help for providing conducive environment required for industrial growth?
- Whether improper formulation of taxation policy is the main cause of the problem faced by industrial sector?

- Does taxation policy provide adequate incentives for stimulating private investment, export promotion and import substitution?
- Does evasion of tax by some of the tax payers create problems for the entire industrial sector?
- Does taxation policy encourage emerging of new industrial sector?

1.4 Objective of the Study

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

- To evaluate the effectiveness of present taxation system of Nepal.
- To identify the problems faced by Dharan Industrial Sector on comprising with tax procedure.
- To evaluate the contribution of tax to the total revenue structure of Nepal.
- To suggest remedies for successful implementation of taxation policies in Nepal.

1.5 Limitation of the Study

Some of limitations of the study are as follows.

- The study concerns only those manufacturing industries which are specially situated at Dharan industrial area. It does not include all type of manufacturing industry.
- Due to the limitation of time period each and every aspect of taxation policy was not covered.
- The reliability of the study depended largely upon the reliability and validity of the primary and secondary data.

- The sample size being confined to only manufacturing establishments of Dharan industrial area might not provide exact result.
- This research is based on limited year i.e.2000/01 to 2009/10.

1.6 Plan of the Study

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

Chapter one: This is the introduction chapter. This chapter includes background, statement of problem, objective of the study, significant of the study, limitation of the study and plan of the study.

Chapter two: This chapter includes conceptual aspects of tax and review of related available studies.

Chapter three: This is the research methodology chapter. This chapter includes research design, population and sample source of data, data collection procedure etc.

Chapter four: In this chapter data are presented, analyzed and interpreted by using statistical tools, mathematical tools and other accounting and financial tools etc.

Chapter five: The final or last chapter contains the summary of the whole study. The conclusions of the study have been presented and at last suitable concrete measures suggested is the form of recommendation. Bibliography and appendixes are incorporated in the end of the study.

CHAPTER – II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Aspects

2.1.1 Tax

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

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

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

According to Plehan, "Tax is general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states (Bhattarai and Koirala, 2010:2).

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

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

According to Findlays Shirras "Tax is compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits (Bhattarai and Koirala, 2010:2).

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

Many economists have classified taxes into several categories but the major categories of taxes may be direct and indirect taxes. If a person has to pay directly the tax liability to the government, such tax is known as direct tax. A direct tax is really paid by the person on whom it is legally imposed. The taxpayer cannot collect tax from other persons. Income tax, Gift tax, interest tax, property tax, vehicle tax, house and land tax and contract tax are some example of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and property. Direct tax has a quality of certainly; the taxpayers are informed about the amount, time and procedure of payment. Taxpayer can easily estimate his tax liability. The government can easily increase or decrease according to proper economic situation of the country. Taxpayers pay tax from their own property, so they conscious about their contribution.

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

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

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

2.1.2 Classification of Taxes

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

1. Direct Tax

2. Indirect Tax

1. Direct Tax

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

- Income tax
- Property tax
- Vehicle tax

- Interest tax
- Death tax
- Contract tax
- Expenditure tax

2. Indirect Tax

An indirect tax is imposed on one person but paid partly or wholly by another.

Types of indirect tax are given below:

- Custom duty
- Excise duty
- Value added tax
- Entertainment tax
- Passenger tax
- Hotel tax
- Others

2.1.3 Historical Background

The concept of income tax was only introduced in Nepal after first budget speech in 2008 B.S. However, it was actually introduced only in 2017 when the financed act 2016 and Business profits and remuneration tax act, 2017 were enacted. But this act was not so profound and explanatory. This act, which had total 22 articles authorized that the tax can only be imposed on profit generated from trade and remuneration from employees. Since this act could not cover all the sources of income and so was replace by the income Tax Act 2019. This acts had 29 sections in total. Nepal Government formulated Nepal Income tax rule 2020 for the implementation of just an aforementioned act.

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

But later on finance act 2030 imposed tax on agriculture. Nepal income tax act 2019 got in first reformation in 2029. There after, knowing the necessity of change and modernization in income tax act management according to the prevailing situation of country. Nepal Government released new income tax act 2031 by replacing income tax act 2019.

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

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

This reformulated law was dissolved in 2058 making a new income tax act 2002 (2058).

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

a. Taxation in Ancient Nepal

There are no truth records about taxation in ancient and medieval period in Nepal. However, taxation takes its earliest form in the actions of petty rules, scattered in various parts of the country which extracted levies and to us from the travelers and merchants. Although land tax was the major source of revenue in ancient Nepal, there

existed irrigation tax and religious smovement's preservation tax in the time of king Amsuvarma of Nepal. There was tax for publication of castes as well as cremation of the dead. In ancient Nepal, taxes were levied in the form of cash and kind. Specific portions of agricultural product were payable to the king as tax. There also existed tax payable in gold, fixed taxes were levied in the villages. Compulsory manual were form all artesian and labourers was also a common way of paying taxes. The nature of taxation was temporary and taxes were raised for special purposes (Agrawal, 1980:42).

b. Taxation during Unified Nepal (1758-1816)

In shah period also there was contribution of the tax system as Malla period, i.e. based on land and trade. After unification different types of taxes like land tax, transit tax, forest product tax, mining tax, market duties were levied. There were different types of taxes like walak, Gaddimuderk, Chumawan and Goddhywa walak was collected from each family to celebrate national festivals. Gaddimudarak was for financing coronation ceremony of the new king. Chuman and Goddhwa were the taxes to be collected in the time of ceremony of conferring office or rank and marriage ceremonies of Royal princes and princesses. Godan was used to collect tax for funeral ceremony of reigning king. Prithivi Narayan Shah introduced pota tax in 1772 A.D. This system of tax was based on flat rate system and limited on small brita owners (Pant, 1969:17).

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

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

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

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

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

2.1.4 Major taxes in Nepal

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

a. Custom duties

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

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

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

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

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

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

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

Evolution of Custom Duties in Nepal

Before 1951 the sole responsibility of custom revenue administration was left on 'Rakam Bandobasta Adda'. In those days there was a system of contract type of custom administration. The contractor after getting the custom office in bid, used to levy import and export tax for their own profit. the contract system was not related to the fiscal system of the country, but was motivated by the personal interest of earning more. After paying certain amount of revenue annually to the 'Rakam Bandovasta Adda' has easy to collecting of contract check-post money.

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

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

Custom Tariff

The custom tariff in Nepal is based on the harmonized commodity description and coding system. Nepal has been adopting this system since 1992/93. Presently Nepal's custom tariff is based on its 2002 version which was enforced as the third amendment on the Harmonized System by world custom organization in January 2002 under this system. There are two schedules; schedule 1st gives some explanation regarding the rate of import duties and the rate applicable to different goods where as schedule 2nd gives rate of export duties.

The development trend of custom duties in Nepal reveals that one of the significant developments made in the history of custom duties is the change in tax

rates which is mainly done for revenue purpose. Before 1987 the rate of custom duties varied according to their sources. Items imported from countries other than India, Tibet and countries with most favoured status were subject to general rates which were higher than any others rates. Import duty on Computer and Computer parts have been reduce to encourage information technology a special fee of 2.5 percent is levied on goods of import value at the custom points. However, a special fee of 0.5 percent will be levied on imported goods of up to 5 percent custom and no special fee is levied on the goods below tariff rate of 2.5 percent, one and half percent local development fee is levied on imports at custom points.

In case of goods produced and imported from India, a rebate of 20 percent is granted to those items that are subject up to 40 percent but only 10 percent to those items subject to import duties above 40 percent. Similarly a rebate of 10 percent granted to the goods produced in China and imported through Tibet autonomous region a rebate of 5 percent is granted, shipping and LC opened in MFN countries. All these rebates are applicable to the goods produced in the SAARC countries under LC is granted a rebate at specified goods under SAPTA agreement. Such rebate is not granted if rebate is already applicable for importing from India or improving from countries having MFN status.

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

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

b. VAT

Concept

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

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

Evolution of VAT in Nepal

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

As a part of liberal economic policy, HMG asked donors to study the VAT system. A VAT tax force was created in the sells tax and excise department in 1993

with the assistance of United States Agency for International Development (USAID) and Consultancy Assistance for Economic Reform (CAER). However, due to political instability and frequent changes in the priority for the implementation of VAT, task force was dismantled.

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

This is because in support of VAT, the government lowered the rates of all taxes i.e. income tax and custom duties in July 1997 whereas VAT was introduced from November 1997. Tax payers had already forgotten these reductions in rates by the time the VAT was introduced. Thus, VAT was opposed and could not be effectively implemented even from 1997 in order to stop the protest against VAT raised by the tax payer the government addressed few issues that were asked by the businessmen. Finance bill 1998 incorporated certain changes which are as follows:

- The threshold was increased from Rs. 2 million to Rs. 3 million.
- Cottage industry got relief from the registration of VAT.
- As special arrangement to be proved to settle the old stock of businessman.
- The rate of interest was reduced to 15 percent from 18 percent.

- The rate of penalty for the late filling of return fixed at 0.1 percent per say instead of 10 percent.
- Tax officers were empowered to issue a tax assessment if tax payer cannot justify the reason for under invoicing.
- A list exempt item increased.

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

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

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

1. Income tax (individual and corporate tax, remuneration income tax, interest tax, house rent tax)
2. Value Added Tax

3. Certain fees and duties like entertainment fee (Film development fee), tourism development fee, liquor control duty, smoking and liquor duty and special fees.
4. Non-tax revenue (Dividend principal and interest payment, royalty charges and fees)

Basic features of VAT applied in Nepal

Consumption type of VAT

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

Consumption type of VAT = Gross domestic product - cost of intermediate goods - cost of goods

Tax credit method

Among the various methods of calculating VAT, our country has adopted tax credit method which is also known as indirect subtraction technique or invoice method. Under this system, VAT liability is calculated by deducting tax on input from the tax on output during a taxable period i.e. net VAT liability = tax on sales - tax paid on purchases.

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

Destination Principle

Under this principle goods and services are not taxed at the place where they are produced or rendered but the place where they are consumed. Alternatively all

imports are taxed while all kinds of exports are exempted from tax. The main benefit arising out of this is non discrimination between import and internal production. This is the most popular form of principle of VAT adopted by a large number of countries. This principle support for export and many countries are eager to best export therefore they follow this principle. The equal treatment is provided for imports and domestic production which fulfills the criterion of tax being neutral.

VAT threshold

Small vendors having an annual turnover up to certain amount are not required to register under VAT, the amount fixed for this purpose is known as threshold. In Nepal the current threshold of VAT is Rs. 2 million per annum. Suppliers of taxable goods and services who fall above the registration threshold should compulsory register in VAT and collect VAT. If suppliers deal with only tax exempt goods and services, they are not required to register. Likewise, business with taxable annual sales of under Rs. 2000,000 may voluntarily apply to register in the Inland Revenue office. Also importers whose annual imports are more than 2 lakhs should register in VAT.

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

Exemption and Zero rating

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

Exemption Technique

Exemption means an exclusion of a certain kind of business transaction or a person (who is engaged in supplying goods and services) from the tax net. An exempted person does not have to fulfill the formalities e.g. registration, keeping account, issuing invoices and filling of returns which are required by a VAT in other words an exempted person does not have to deal with the VAT administration and pay tax. Similarly VAT administration has nothing to do with the exempted persons. However, is not allowed to credit or refund the tax if there is any on his purchases. At present following goods and services are exempted from VAT.

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

Zero rating Technique

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

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

- ❖ To provide basic necessities fully free from tax.
- ❖ To make export promotion in order to correct balance of payment in international trade.
- ❖ To support economic growth freeing capital goods completely from VAT.

Following supplies are zero rated.

- ❖ Exports goods that have been shipped for use as stores on a flight to a destination outside the kingdom of Nepal.
- ❖ Goods or stores taken on board an aircraft are also zero rated provided that the goods are taken on board an aircraft to a destination outside the kingdom of Nepal for delivery to another country. Similarly fuel used by aircraft on a flight to a destination outside the kingdom of Nepal is also zero rated.
- ❖ Imports of goods and services by accredited diplomats.
- ❖ To get best result from zero rating technique, the tax refund process should be carried out in a systematic and routine manner.

A Single Rated VAT System

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

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

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

c. Income Tax

Concept

Income tax is considered as an important source of revenue in most of the countries whether it is developed or developing countries regardless of in high or low contribution. It is levied on the net income of individual and corporation. As mentioned in Income Tax Act 2058, income means a person's income from any employment, business or investment and total of that income as calculated in accordance with this act and tax means income tax imposed on all those incomes that lie under the category of income as per this act and also includes fines, fees and

penalties payable to the department of tax. Income tax refers to the tax chargeable on the net income of a person earned or received in the kingdom of Nepal within the year of income after making deducting to which he is entitled under this act (Aryal and Paudel, 2060:44).

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

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

Business Income

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

Investment Income

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

Employment Income

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

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

Major Issues Regarding Income Tax in Nepal

Tax Base

Tax base lays the foundation for determining tax. Some of the mostly used tax bases are tax on gross assets, tax on business expenditure, tax on value added, tax on book profits and tax on cash flows. Each tax base has its own merits and demerits. However, most of the countries prefer corporate profits or book profits as the tax base since book profit as a tax base is stronger and superior than other types of the bases. In case of Nepal, tax is levied on the total income of the previous year of a company. The total income falls mainly under the heads of income i.e. profits and gains of business and other sources of income. The word profit means net income i.e. total revenue less total cost. However, accounting profit may differ from taxable profits. Computing taxable income profit as per certain expenses and losses are either fully or partly disallowed under the provision of Income Tax Act. Similarly, there are certain incomes, which are fully or partly tax free, the taxable income is computed by adjusting the following items to the net profit.

- Net profit as per profit and loss account
- Add those expenses which are not allowed to be deducted as per the provisions under Income Tax Act.
- Those incomes which are taxable but not credited to profit and loss account.
- Deduct those expenses which are non-taxable but included in profit and loss account.

- Deduct those incomes which are tax free but included in profit and loss account.

Tax Incentive

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

Tax incentive may differ from country to country depending upon the economic and political climate. However, they are generally in the form of investment allowance, investment tax credit, development rebate, depreciation allowance, extra-shift allowance, tax holyday, carry forward of losses investment grants, deduction on respect of dividend, promotion of tourist facilities or hotels, development of backward region, rehabilitation of sick industries permitting shareholders (Koirala, 1985).

Loss Offset Provision

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

The Income Tax Act 2058 has introduced liberal provisions relating to the treatment of losses. Losses can be forwarded for the following four years. However, in the case of electricity projects that insure building power stations generating and transmitting electricity and prospects conduct by any entity involving the building of

public infrastructure, which is owned operated and then transferred to Nepal Government any unrelieved loss of the previous seven years can be deducted. Furthermore, tax payers involved in banking insurance and long term contract business, in addition of the carry forward of losses, are also allowed to carry back their losses. The treatment of losses differs depending upon their nature and sources. Losses incurred from a domestic business are deductible against all types of income from my source i.e. domestic or foreign. Losses from a domestic investment can be deducted only against investment income whether domestic or foreign. Foreign losses can be offset against foreign source income only of the foreign losses, business losses can be offset against foreign business or investment income while the losses from foreign investment may be deducted from foreign investment only.

d. Excise Duty

Concept

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

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

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

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

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

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

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

Evolution of Excise Duties in Nepal

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

With the expansion of different kind of industries within the country excise revenue began to increase. Later on 1966 A.D. a separate excise department was established. This department collects excise revenue. Excise duties are basically levied

on tobacco products and alcoholic beverages. At present, excise duty act and excise duty rule 2059 is in operation. Since excise duties are the fourth largest source of tax revenue of NG, the separate excise act and excise rules for administration of excise duties have been introduced.

2.2 Review of Related Studies

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

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

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

Subedi (1979), in his dissertation, "A comparative study of Nepalese tax system" made a comparative analysis of direct and indirect taxes in their contribution

to government revenue. The study has examined the trends of tax and GDP of Nepalese economy, analyzed. The responsiveness of different taxes with GDP of Nepal and assessed the problems of Nepalese taxation.

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

Regarding the problems of taxes, the study observed that the main problems of custom duties are open border increasing settlements near the Nepal- India border on both sides smuggling necessity of imposing sale taxes at entry points and inefficient administration. In case of excise revenue, lack of trained staff is the major constrain in respect to sales tax. Collection of sales tax at source creates an undue burden to the importers as well as custom officers. Similarly the problems relating to income tax are no less troublesome.

The main cause of lower position of direct taxes are due lower and irregularity of income due to 40% people being below poverty line, difficulties in collecting taxes from self-supporting income earners like shopkeepers, farmers, artisans etc. The study concludes that Nepal occupies a very lower position in the collection of direct taxes. They are avoided on the ground of poverty, low monetization and subsistence economy. However, an excessive reliance on indirect taxes will eventually have adverse effect on the production at home, logging, exports, rising domestic prices thus decreasing peoples welfare and eventually distortion in economic structure. The study has only analyzed the problems relating to Nepalese Taxation but has not suggested concrete solution of them.

Baral (1989), in her dissertation, "Income tax in tax structure of Nepal" has studied the contribution of income tax in the tax structure of government revenue in Nepal. She stated that it is not easy to raise government revenue in Nepal because the

main source of income is agriculture but it is exempted in Nepal and therefore, this sector has no directly contributed to the government in terms of revenue. She has found that the contribution of direct tax has been decreasing. The main reasons behind that are the Nepalese people to evade it.

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

- Lack of clear and comprehensive definition of income.
- Lack of punishment to the tax evaders.
- The tax paying capacity and the consciousness among tax payer is very low because of illiteracy.
- Lack of efficient tax administration.
- Lack of scientific method of tax collection and trained.
- Lack of public information and public relation.

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

Pant (1996), presented a thesis entitled "A study on Income Tax Management in Nepal" in 1996. His main objectives of research were to find out the share of income tax to government revenue, to review the income tax system and to identify the problem of income tax management. His research was based upon primary as well as secondary data. The primary data were collected with in Kathmandu valley through interview, questionnaire etc.

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

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

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

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

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

Lastly he has recommended several suggestions like as follows:

- Income Tax Act 2058 should be revised so the double taxation can be avoided.
- Make clear and strict rule for reward and punishment.

- Correct its bureaucracy to avoid corruption.
- Given tax exemption or subsidy is very sensible and service oriented business which provide basic requirement like health education and communication.
- Some unnecessary and illogical taxes like 'kabadi kar' for liquors landing and parking charge for airlines etc. should be decrease to reasonable level.
- Government should establish sufficient numbers of tax collection counters and should update in personal with adequate training regarding the latest tax policy.
- Nepalese tax policy should be immediately updated according to the amendment of international tax policy.
- Government should distribute license for liquor and cigarette consumption for the adult group so that disorder and miss management can be avoided.
- Self assessment tax system which is found popular among the tax payers should be more simplified and applied in the coming period.
- The cottage and domestic industries should be given privileged subsidy and free from excise duty for this purpose they should be categorized as handicraft stone carving handmade carpet etc.

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

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

According to Editorial published in Nepal tax journal (2063/64) about alternative and option for an efficient modern, fair tax administration system. Editorial

concluded that custom value on import are often not very closely related to transaction prices they are generally less, but the divergence differ considerably across product.

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

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

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

Pant (2007), had written an article "entitled problems in tax administration and their remedies" He had comprehensively explained about problems and their remedies related with tax revenue. The major practical problems and challenges are in tax administration. He had mentioned in his articles were showing limited amount of transaction, showing low selling price, lack of the showing the real factory cost, commercial fraud, lack of co-operation in tax auditing of co-ordination between Inland Revenue department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestion to solve the problem and to overcome and challenges. They were statistical and information system should be properly managed fixed norms and standards should be used to assets selling price and factory cost the billing system should be made compulsory co-ordination between Inland Revenue

offices with various entities of NG. Revenue investigation department and its related unit should play the important role and auditing of tax should be winded etc.

Pradhan (2007), on his dissertation "problems and prospects upon industries in Nepal" had specified so many problems related to tax as, widespread discretionary power of tax officers frequent changes in tax law, uncomputerized system, lack of adequate preparation of a self assessment system, lake of mutual trust between tax payers and tax officials arbitrary assessment of custom duties, transaction based valuation system, lack of trained and experienced custom officers, difficult procedure in excise refund system increase on excise rates, tax evasion, problems in VAT refund and so on.

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

- The custom process should be made simpler and easier as far as possible.
- Import make under DRP (duty refund procedure) system.
- Improvement made in transit facility.
- Provide custom credit facilities.
- Make control on the border areas.
- Before placement of custom officers give them proper training, transfer of custom personnel from one custom point to another creating rewarding and punishment system, decrease legal complication.
- Improve valuation process.
- Computerized the custom administration.
- Information related to VAT dissimilated to consumers.
- Acts and rules relating to various aspects of tax as well the industrial policy should be amended as per the requirement of business organization.
- Income tax assessment using negotiation and best judgment method.

- Voluntary compliance of the tax payers for the success of self assessment tax system.
- Computerized billing/automatic billing system should be developed in the VAT system.

Thapa (2008), on his dissertation "Resource mobilization through VAT in Nepal" stated that the main objectives of introducing VAT are listed below:

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

For the Nepalese context, VAT is suitable both theoretically and empirically but the practical aspect is extremely weak. Thus, only the introduction of VAT is not acceptable as a tax reform. The system of VAT itself has a great need of reforming of the Nepalese context and the percentage of export of goods materials and equipment. The average percentage of import before the introduction of VAT was 75% whereas the average percentage of import was 70.2% and the average percentage of export was the introduction of VAT in Nepal. It shows the introduction of VAT in Nepal improves the inclination of export to same extent of 4.8%.

Regmi (2008) has presented a dissertation entitled "Income Tax Administration and Its Effectiveness in Nepal". He has analyzed contribution of Indirect Tax and Direct Tax in Total Tax Revenue and find out the share of income tax in total tax revenue. He has examined the effectiveness of income tax system depends upon the income tax administration. According to him, in Nepal, one of the most important

reasons for unsound income tax system is inefficient and unscientific income tax administration. For the improvement of income tax administration he has suggested that delays in assessment should be reduced as possible, computerized information system is necessary to keep up to date records of income tax, proper tax education should be provided to tax officials as well as taxpayers regularly, cost of income tax collection is one of the determinants of efficiency of administration. Therefore, the concerned authority should pay due attention to it should be reduced, unnecessary outside pressure should be avoided and income tax experts/profession should be increased in tax administration. He pointed out that the administration should pay great attention to bring the income from house and land rent; doctors; clinic, consultancy service, tuition, research works into income tax net. In these sectors, income tax has been highly evaded.

Dhungel (2009) had presented a dissertation entitled "special provisions to individuals under income tax act 2058". She had examined and analyzed the effectiveness of special provisions provided by ITA 2058 to individual and identified the other provisions to be included in the special category. She also wanted to make aware about special provisions to individual (taxpayers) and tax experts. She has found special provisions should be provided and the retirement contribution should be wholly exempted, the tax concession to individuals working at different area is contradictory. Tax experts are satisfied and taxpayers are not satisfied.

Nepal (2010), presented her master's level dissertation on "A study of problems and prospects of Income Tax in Nepal." She has emphasized on fiscal system of Nepal, origin, meaning existing position, tax problems and future prospects of Income Tax in Nepal. She has pointed out some problems of existing Nepalese income tax system as inefficient income tax administration, mass poverty, lack of tax consciousness, less number of tax payer, narrow coverage, assessment deficiency etc. She has suggested for effective tax administration widening the tax coverage etc. for solving the problems so as to utilize resources efficiently.

Khanal (2011), has presented a dissertation entitled "A VAT for Nepal." He found that the major hurdles for applicability of VAT in Nepal are the existence of large proportion of small traders in trading activities, unfavorable business structure and practices, weak administration, existence of open boarder and large amount of unauthorized trade from India to Nepal, under valuation of imports, tax evasion and low tax consciousness of the people.

2.3 Research Gap

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

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

CHAPTER –III

RESEARCH METHODOLOGY

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

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

"Research methodology is the analysis and systematic application of procedures used in scientific investigation or in particular research project." (Adhikari, 2010:28)

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

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. The study is design to draw conclusion about objective of the study as per the opinions of 22 industries situated at Dharan Industrial State. Opinions of respondents were collected through questionnaire. The questionnaire contains the opinion about tax administration, tax rate and system, income tax problem of their organization and other aspects of income

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

3.2 Population and sample

This research work is related with tax problem of manufacturing company (specially situated at Dharan Industrial State). So in order to fulfill the objectives of this study sample from Dharan Industrial State are taken, the respondents were selected here very carefully from the list received from various sources using judgment sampling techniques. Questionnaires were distributed to 40 respondents and all were come in responding. Persons involved in the responding of questionnaire are from tax experts, managers, and tax administrators of related industries, the conclusion has drawn on the study of 22 industrial units. Among them 7 were food processing industries, 6 industries were plastic industries, 5 industries were metal industries and 4 others industries were chemical, paper, plywood and press.

Table 3.1

Group of Respondents and Size of Sample from Each Group

S.N.	Group of Respondents	No. of industries	Sample Distributed
1.	Food processing industries	7	14
2.	Plastic industries	6	12
3.	Metal industries	5	10
4.	Others(chemical, paper, plywood, press)	4	04
	Total	22	40

Total industries = 34

Operating = 22

Under construction = 09

Closed = 03

3.3 Sampling Method

The sampling method used to select the sample respondents are judgment sampling or purposive sampling. The sample is selected on the basis of researcher's judgment. The objective of the study is to draw conclusions about tax practices of manufacturing companies situated at Dharan Industrial State.

3.4 Nature and Sources of Data

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

3.4.1 Primary Sources of Data

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

3.4.2 Secondary Sources of Data

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

- a) Economic survey and budget speeches, Ministry of finance, Nepal government.
- b) Dissertation relating to tax problem of manufacturing companies, income tax, tax administration.

- c) National newspaper, Journals, Magazines and souvenirs.
- d) Other published and unpublished relevant records and data available.

3.5 Data Collection Procedure

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

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

3.6 Data Analysis Method

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

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Revenue Structure of Nepal

The income of the government through all source like custom duty, value added tax, income tax, land revenue and registration charges and fees, forfeiture, royalty etc is called public revenue. Public revenue may be divided into two main heading.

- a) Tax Revenue
- b) Non-Tax Revenue

Generally tax is a compulsory contribution imposed by a public authority. Taxation is the main source of income of the government for public purposes. It includes interest collected of tax arrears and penalties collected on non- payment or late payment of taxes. Tax revenue is the principal source of the government revenue; however its contribution differs significantly in different countries. In the context of Nepalese economy tax revenue is major source of government to mobilize internal sources effectively and properly as it has been dominating the government revenue by contribution around three quarters of total revenue.

Every government is responsible to perform numerous activities for the betterment of the people in the country. Government needs huge volume of income to

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

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

In the fiscal year 2000/2001 the total revenue was 48893.9 Million. The share of tax and non –tax revenue was 79.49% and 20.51% respectively. So that the contribution of both tax revenue to total revenue, total revenue seems to be growing simultaneously, the dominated role is tax revenue during the study period contribution of tax revenue has increased but non- tax revenue has decreased in the fiscal year 2005/06 and 2006/07 by 2%.In the fiscal year 2007/08 tax revenue also has decreased by 2%. Again, in fiscal year 2008/09 and 2009/010 non –tax revenue has decreased by 2.5% and 5.3% respectively.

Table 4.1
Magnitude of Revenue Collection in Nepal

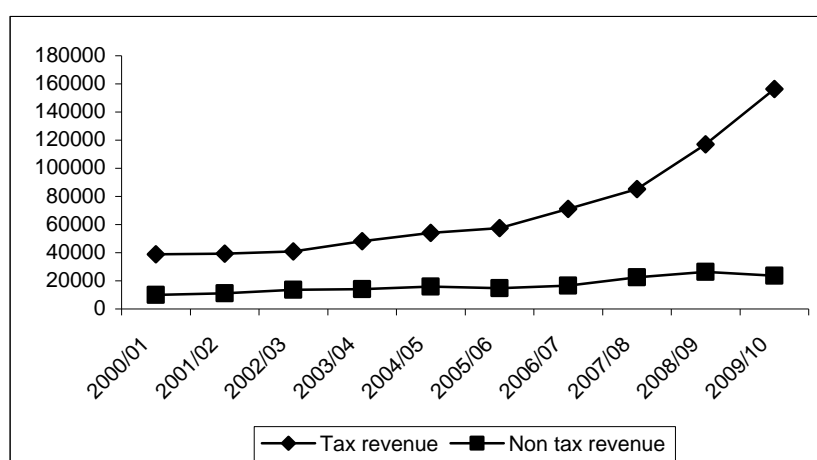
(Rs. in Millions)

Fiscal year	Total Revenue	Tax revenue		Non tax revenue	
		Amount	% as total revenue	Amount	% as total revenue
2000/01	48893.9	38865.1	79.49	10028.0	20.51
01/02	50445.6	39330.6	77.97	11116.0	22.03
02/03	54538.9	40896.0	75.74	13642.9	24.26
03/04	62331.0	48173.0	77.29	14158.0	22.71
04/05	70122.7	54104.7	77.16	16018.0	22.84
05/06	72281.9	57430.4	79.45	14851.5	20.55
06/07	87712.2	71126.7	81.09	16585.5	18.91
07/08	107622.4	85155.5	79.12	22466.9	20.88
08/09	143474.5	117051.9	81.58	26422.6	18.42
09/10	179945.8	156294.9	86.86	23650.9	13.14

Source: Economic Survey July 2011, Ministry of Finance (MOF) Nepal.

Figure 4.1

Figure of Revenue Collection in Nepal



4.1.1 Tax Revenue Structure of Nepal

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

Table 4.2

Tax Revenue Structure of Nepal

(Rs. in Millions)

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount	% as total revenue	Amount	% as total revenue
2000/01	38865.1	10159.4	26.14	28705.7	73.85
01/02	39330.6	10597.5	26.94	28733.1	73.05
02/03	42586.9	10105.8	23.72	32481.1	76.28
03/04	48173.0	11912.6	24.72	36260.4	75.28
04/05	54104.7	13071.8	24.16	41032.9	75.83
05/06	57430.4	13968.1	24.32	43462.3	75.67
06/07	71126.7	18980.3	24.68	52146.4	73.31
07/08	85155.5	23087.7	27.11	62067.8	72.88
08/09	117051.9	34320.7	29.32	82731.2	70.68
09/10	156294.9	42750.0	26.71	114544.9	73.29

Source: Economic Survey July 2011, MOF, Nepal.

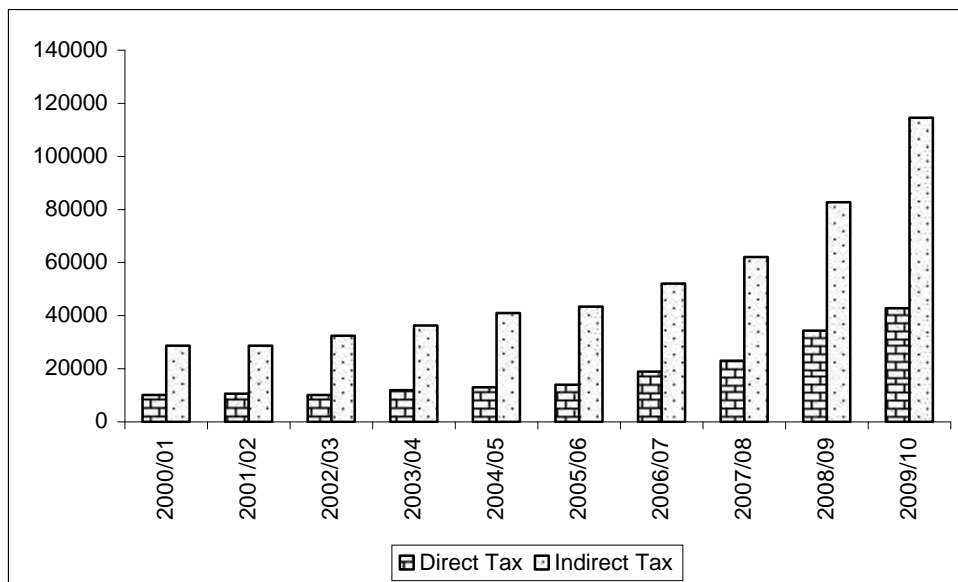
From the above table, it is clear that the completely Nepalese tax structure is dominated by indirect tax revenue during this study period; the share of direct tax in

total tax is increasing simultaneously from 2000/01 to 2001/02 but it has decreased by 3% in fiscal year 2002/03 because of instability of government and political conflict in the country. It has increased regularly after fiscal year 2005/06 to fiscal year 09/10.

In developed countries like UK and USA, direct tax plays leading role for the internal resource mobilization where as developing country Nepal, indirect tax plays important role by dominating direct tax. Indirect tax is the principle source to general revenue. So to divert the economy is the channel of development, it is necessary to increase the share of direct tax.

Figure No.4.2

Trend of Composition of Tax Revenue



4.1.1.1 Direct Tax Revenue

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

With very limited tax base and narrow coverage direct tax in Nepal seems to be less effective to mobilize the domestic resource. Although it is an inevitable instrument of the fiscal policy and hence it must be designed and properly practiced. In general, the revenue productivity of the direct tax goes on increasing as the economy of the country grows over time. If the economic growth increases per capita income per annum of that country will automatically raise. In depth it means that he possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of indirect tax's magnitude in composition. Lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path to substitute the share of direct tax is less than developing economies like Bangladesh and Pakistan etc. Thus, it lies as a minor source of tax revenue source of Nepal. Direct tax in Nepalese economic is composed of different taxes namely income tax, bhumi tax, house and land registration and house and land tax.

4.1.1.2 Magnitude of Direct Tax Revenue

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

Table 4.3**Magnitude of Direct Tax Revenue (Rs. in Millions)**

Fiscal Year	Direct Tax	Land Revenue and Registration		Tax on property income	
		Amount	Percent	Amount	Percent
2000/01	10159.4	612.9	6.03	9546.5	93.96
01/02	10597.5	1131.8	10.67	9465.7	89.32
02/03	10105.8	1414.3	13.99	8691.5	86.00
03/04	11912.6	1697.5	14.24	10215.1	85.85
04/05	13071.8	1899.2	13.76	11272.6	86.23
05/06	13968.1	2181.1	15.61	11787.0	84.40
06/07	18980.3	2253.5	11.87	16726.8	88.12
07/08	23087.7	2940.7	12.74	20147.0	87.26
08/09	61161.6	5223.3	8.54	55938.3	91.51
09/10	84905.2	5511.1	6.50	79394.1	93.51

Source: Economic Survey July 2011, Ministry of Finance (MOF), Nepal.

In the fiscal year 2000/01 the both components of direct tax were 612.9 million (6.03%) and 9546.5 million (93.96%) respectively. Similarly in 2002/03 were 13.99% and 86.00% and 2007/08 were Rs.2940.7 million (12.74%) and 20147.00 million (87.265%) respectively. At last, in fiscal year 2009/10 the both components of direct tax were 5511.1million (6.5%) and 79394.1 million (93.51%) respectively. Collection of land revenue was fluctuately increases and decreases whole year and tax on property income is almost steady.

4.1.1.3 Composition of Direct Tax Revenue:-

The major components of direct taxes in Nepalese tax structure are income tax, land tax, house and land registration tax and property tax. Income tax includes all types of income tax and interest tax. On the other hand, property tax includes urban house and land rent tax, vehicle tax and other tax. Thus the composition of direct tax has become larger than other direct tax. The share of the major composition of the direct taxes from 2000/01 to 2009/10 is given below.

Table 4.4

Composition of Direct Tax Revenue (Rs. in Millions)

Fiscal year	Income Tax	Land Tax	House and Land Registration	Tax on Property	Total Direct Tax
2000/01	9114.0	5.10	607.8	432.5	10159.4
01/02	8903.7	0.80	1131.0	562.0	10597.5
02/03	7966.2	0.00	1414.3	725.3	10105.8
03/04	9245.9	0.00	1697.8	969.2	11912.6
04/05	10466.1	0.00	1799.2	806.5	13071.8
05/06	10374.7	0.00	2181.1	1412.7	13968.1
06/07	15034.0	0.00	2253.5	1692.8	18980.3
07/08	17311.2	0.00	2940.7	2835.7	23087.7
08/09	25142.4	0.00	5223.3	3955.0	34320.7
09/10	31285.6	0.00	5511.1	4953.3	41750.0

Source: Economic Survey July 2011, Ministry of Finance (FOM), Nepal.

The largest share in the direct tax is occupied by income tax from fiscal year 2000/01, the direct tax has increased regularly up to fiscal year 2009/10. The revenue collection from land tax is declining continuously and gone zero up to 2009/10. In the fiscal year 2007/08 tax on property was increased 1200 million because of VDSI policy adopted by government and it has regularly increased up to fiscal year 2009/10.

4.1.1.4 Indirect Tax Revenue

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

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

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

4.1.1.5 Composition of Indirect Tax Revenue:

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

Table 4.5**Composition of Indirect Tax Revenue (RS. in Millions)**

Fiscal Year	Custom Duties*	Sales Tax/VAT	Excise Duty**	Other Taxes***	Total Indirect Tax
2000/01	12552.1	12382.4	3771.2	00.00	28705.7
01/02	12650.0	12267.3	3807.0	00.00	28724.3
02/03	12783.2	13459.7	3771.2	00.00	30014.1
03/04	15554.8	14478.9	6226.7	00.00	36260.4
04/05	15701.6	18885.4	6445.9	00.00	41032.9
05/06	15344.0	21610.7	6507.6	00.00	43462.3
06/07	16707.6	26095.6	9343.2	00.00	52146.4
07/08	21062.4	29815.7	11189.6	00.00	62067.7
08/09	26792.9	39700.9	16220.9	16.50	82731.2
09/10	35150.8	54920.9	24306.1	167.1	114544.9

Source: Economic Survey 2011 July, (MOF) Nepal.

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

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

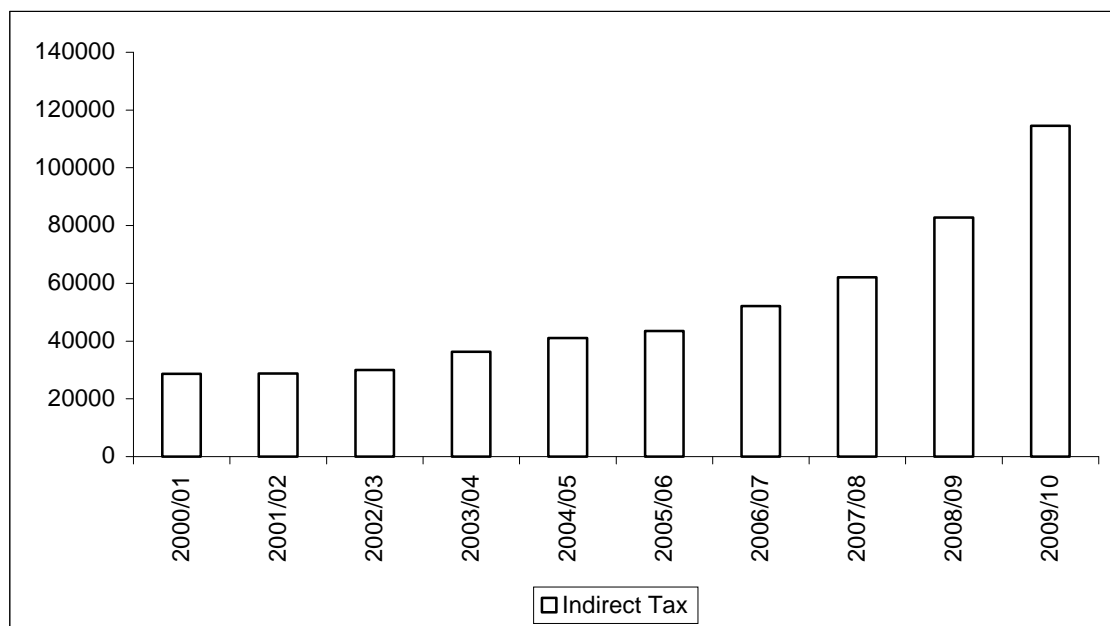
***Other taxes include entertainment tax, air flit tax, contract tax, road and bridges maintain tax and others.

Above table shows that the contribution of custom duties to indirect tax is in curiosity trend. It's share in the fiscal year 2000/01 is Rs. 12552.1 million and it reached up to Rs. 35150.8 million in fiscal year 2009/10. VAT to indirect tax is also increasing contributed Rs. 12382.4 million in fiscal year 2000/01 and it reached up to

Rs.54920.9 million in the fiscal year 2009/10. Similarly, revenue collection from exercise duties are Rs.3771.2 million and Rs.3807.0 million in the fiscal year 2000/01 and 2001/02 respectively. In fiscal year 2002/03 it has decreased and it has contributed Rs. 3771.2 million only. And then it was again increasing trend up to fiscal year 2009/10.

Figure 4.3

Composition of Indirect Tax Revenue to Total Tax Revenue



4.1.2 Non –Tax Revenue Structure of Nepal

Non –tax revenue is another source of the government revenue in the revenue structure of Nepal. It is not imposed by public authority to the tax payers. Fees, fines, penalties, dividends royalty, sales of fixed assets, principle and interest payment etc are the base of non tax revenue. The composition of non- tax revenue in Nepalese fine forfeiture, receipts from sales of commodities and services, dividends, royalty, sales of fixed assets, principle and interest payment etc. There is some scope of generating more revenue through the rationalization of piracy policies and operational performances. There sources cannot be used effectively as a revenue raise since most of these sources are levied not for revenue purposes.

Table 4.6**Composition of Non-Tax Revenue (Rs. in Millions)**

Fiscal year	Charges, fees, fine and forfeiture	Receipts from sales and service of commodities	Dividend	Royalty and sales of fixed assets	Principle interest payment	Miscellaneous items	Total
2000/01	386.7	2728.0	2336.5	949.6	3497.2	130.8	10028.8
01/02	518.8	2611.1	2512.9	723.9	3109.5	1638.8	11115.0
02/03	579.6	3063.0	2497.6	1945.5	2464.3	3092.8	13642.7
03/04	1202.5	3497.0	2661.1	1465.0	3507.11	1825.3	1415.8
04/05	1359.9	3849.0	4589.9	1931.4	2714.3	1572.6	16018.0
05/06	1927.7	3932.3	3394.8	1196.8	3251.3	1148.7	14851.6
06/07	1945.4	4776.8	4937.7	1091.8	2085.7	1748.1	16585.5
07/08	2554.7	4897.7	5025.9	5773.65	3440.0	774.80	22466.9
08/09	6180.4	5255.3	7197.4	2541.7	4616.9	630.9	26422.6
09/10	4985.4	5587.2	7352.0	2948.4	2401.1	376.8	23650.9

Source: Economic Survey 2011 July, Ministry of Finance, Nepal

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

Non –tax revenue increased by 35.5% to Rs. 22466.9 million in fiscal year 2007/08 compares to that of fiscal year 2006/07 of the total non –tax revenue, the

share of fees, fines, forfeitures was 11.4%, the share of income from government service and sales of goods was 21.8%, dividend was 22.4%, royalty and sales of government property was 25.7%, principal or interest was 15.3% and miscellaneous non tax revenue was 3.4%.

On the non tax revenue from the growth of firm registration fee was 41.6% and administrative fee fines and forfeitures was in fiscal year 2007/08 compares to previous fiscal year dividend of service oriented organization is funs to have increase by 2% and income of other government sectors by 2.9%. In total the non tax revenue was increasing trend from fiscal year 2000/01 to fiscal year 2004/05. And it has decreased in fiscal year 2005/06. After this it was increasing regularly from fiscal year 2006/07 to 2008/09 which reached Rs. 26422.6 million and again it has decreased in fiscal year 2009/10 and reached Rs.23650.9 million.

4.1.3 Tax and Non –Tax Revenue in GDP:

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

Table 4.7

Tax and Non –Tax Revenue as Percentage of GDP (Rs. in Millions)

Fiscal year	GDP	Tax Revenue	Non -tax Revenue	Percentage of GDP	
				Tax/GDP	Nontax/GDP
2000/01	441519	38865.1	10028.6	8.8	2.27
01/02	459443	39330.6	11114.9	8.56	2.41
02/03	492231	40896.0	13642.9	8.31	2.77
03/04	536749	48173.0	14158.0	8.97	2.64
04/05	589412	54104.8	16018.0	9.18	2.72
05/06	654084	57430.4	14851.6	8.78	2.27
06/07	727827	71126.7	16885.5	9.77	2.32
07/08	815658	85155.5	22466.9	10.44	2.75

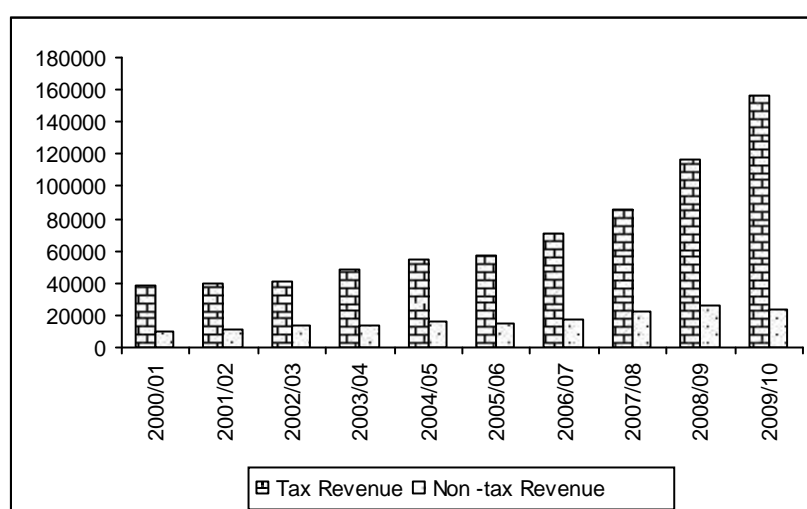
08/09	988053	117051.9	26422.6	11.85	2.67
09/10	1171905	156294.9	23650.9	13.34	2.02

Source: Economic Survey, 2011 July, Ministry of Finance, Nepal.

The above table represents an account of tax and non tax revenue percentage of GDP, the tax revenue has been increasing much higher than the non tax revenue over the study period 2000/01 to 2009/10. The share of tax revenue decrease in fiscal year 2005/06 and it has regularly increased from fiscal year 2006/07 to fiscal year 2009/10. The share of non-tax revenue in fiscal year 2000/01 is 2.27% and in fiscal year 2009/10 it is only 2.02%. In above table, share of non tax revenue has fluctuated from fiscal year 2000/01 to fiscal year 2009/10. The relationship between tax and GDP is known as a tax/GDP ratio. This is an indicator of the utilization of taxable capable capacity. The above table shows rather disappointing scenario of tax/GDP ratio is still much lower than that of many other developing countries. By comparison to the world standard, this is very low level of taxation.

Figure 4.4

Tax and Non –Tax Revenue as Percentage of GDP



4.1.4 Direct Tax and Indirect Tax Revenue in GDP

Tax revenue is composed of direct and indirect tax. However, the indirect tax revenue dominates the completely Nepalese tax structure the contribution of direct

tax revenue is very low in Nepal in comparison to developed countries like USA, Japan etc. because being an underdeveloped country, the people of Nepal live in a subsistence level and all their income is spent on consumption as a result 'direct tax cannot produce more revenue than indirect tax.'

To know the contribution of direct tax and indirect tax revenue it will be desirable to examine the share of direct tax and indirect tax revenue in GDP. The following table indicates the share of direct and indirect tax revenue in GDP.

Tables 4.8

Direct and Indirect Tax Revenue as Percentage of GDP (Rs. in Millions)

Fiscal Year	GDP	Direct Tax	% of GDP	Indirect Tax	% of GDP
2000/01	441519	10159.4	2.38	28705.7	6.50
01/02	459443	10597.5	2.31	28733.1	6.25
02/03	492231	10105.8	2.05	32481.1	6.60
03/04	536749	11912.6	2.22	36260.4	6.76
04/05	589412	13071.8	2.22	41032.9	6.96
05/06	654084	13968.1	2.14	43462.3	6.64
06/07	727827	18980.3	2.61	52146.4	7.16
07/08	815658	23087.7	2.83	62067.8	7.61
08/09	988053	34320.7	3.47	82731.2	8.37
09/10	1171905	41750.0	3.56	114544.9	9.77

Source: Central Bureau of Statistics or Economic Survey, July 2011.

From the above table, the percentage of share of direct tax in GDP is in a fluctuating trend but the share of indirect tax is in a fluctuating trend up to fiscal year 2005/06 and from fiscal year 2006/07 it has increased regularly up to fiscal year 2009/10.

4.1.5 Contribution of Income Tax to Total Revenue:

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

Table 4.9**Collection Performance of Income Tax Revenue (Rs. in Millions)**

Fiscal Year	Estimates (in 000)	Collections (in 000)	Differences	Collection as % of estimates % of GDP
2000/01	9980	9114.0	(866)	91.32
01/02	11140	8903.7	(2236.3)	79.92
02/03	9862	7966.2	(1895.8)	80.77
03/04	8697	9245.9	548.9	106.31
04/05	10500	10466.1	(33.9)	99.68
05/06	11800	10374.7	(1425.3)	87.92
06/07	12710.5	15034.0	2323.5	118.28
07/08	16869.2	17311.2	442.02	102.62
08/09	27087	25142.4	(1944.6)	92.82
09/10	36298	31285.6	(5012.4)	86.20

Source: Annual Report of IRD Various Years.

Note: Figure in bracket indicates negative value.

The income tax collection was 91.32% in fiscal year 2000/01 that was less than the estimation. Fiscal year 2001/02 and 2002/03 the estimation was failed and collection was also less than the estimation. In fiscal year 2003/04 collection was more than the estimation. Again the estimation of income tax was not good performance to collect the revenue in fiscal year 2004/05 and 2005/06. In fiscal year 2006/07 income tax collection percent of estimates was 118.28% that was the highest percentage of whole study period because of higher tax collection policy adopted by government. In fiscal year 2007/08 income tax collection was 102.62% that was

greater than estimation. But in fiscal year 2008/09 the income tax collection was 92.82% that was less than the estimation. Similarly, in fiscal year 2009/10 the income tax collection was 86.20% that was less than the estimation.

4.2 Empirical Study:

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

In the study 40 set of questionnaire were distributed to the different industries and all sets came into responding. The questionnaire was given to financial manager in charge of the tax management. The respondents were asked either yes/no or selecting one alternative among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is the least important. For the purpose of analysis choices assigned weights are according to the number of alternatives. If the numbers of alternatives are ten (10) then the first preferred choice gets one point and last preferred choice gets ten points. Any alternative, which are not ranked, did not get any point. Total points available to each choice are converted into percentage to set the ranked of alternatives. The choice with the highest score of percentage is ranked as the most important choice and with the lowest percentage being ranked at last choice.

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

Table 4.10**Group of Respondents and Size of Sample from Each Group:-**

S.N	Group of Respondents	No. of Industries	Sample Distributed
1.	Food processing industries	7	14
2.	Plastic industries	6	12
3.	Metal industries	5	10
4.	Others(chemical, paper, plywood, press)	4	04
Total		22	40

Source: As per Research Design.

A. Effectiveness of Income Tax Act 2058

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

Table 4.11**Effectiveness of Income Tax Act 2058**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	12	86	2	14	14	100
Plastic industries	10	83	2	17	12	100
Metal industries	10	100	-	-	10	100
Others(chemical, paper, plywood, press)	4	100	-	-	04	100
Total	36	90	4	10	40	100

Source: Field Survey, 2012.

From the above table 4.11, it is clear that majority, that is 92% of the respondents felt that present income tax Act 2058 effective, only 8% felt that it is not effective. 92% of the respondents expressed their views that the present income tax Act2058 is more effective. Thus, they are satisfied with present tax policy. Only 8% of the respondents are not satisfied with present tax policy. 86% of the respondents from food processing industries, 83% from plastic, 100% from metal industries and others felt that present tax policy is effective.

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

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

Table 4.12

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

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	5	36	9	64	14	100
Plastic industries	2	17	10	83	12	100
Metal industries	1	10	9	90	10	100
Others(chemical, paper, plywood, press)	-	-	4	100	04	100
Total	8	20	32	80	40	100

Source: Field Survey, 2012.

According to field review 80% of the respondents were given their opinion that there have been inadequate opportunities for redressing their grievances. It does

not, however, mean that there is no provision for appeal system as such. It takes a long time to given decisions on appeals sometimes even decades to settle appeals filled with the revenue tribunal. Moreover, when a tax payer files an appeal in the revenue tribunal, he must deposit half the amount of tax due in cash. The appeals are not expeditious settled. The amount deposited in such case remained blocked for a long period of time furthermore, since there is not stator time limit for the finalization of case filed before the revenue tribunal, those who appeal have to preserve their records for an inordinate time which cause them inconvenience and costs.

C. Views on income tax related problems.

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

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

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

Table 4.13**Views on income tax related problems.**

S.N.	Problems	Respondents				Total points	Rank
		Food processing industries	Plastic industries	Metal industries	Others		
1.	Defective tax adm.	83	74	72	22	251	VII
2.	Corruption	63	63	53	13	192	III
3.	Income tax act	72	62	57	20	211	IV
4.	Delay procedure	37	24	12	4	77	I
5.	Lack of systematic evaluation and control mechanism	83	66	55	19	223	V
6.	Unclear definition of income	108	78	75	30	291	VIII
7.	Discretionary power of tax adm.	52	60	37	19	168	II
8.	Improperly implemented of tax act	128	97	74	30	329	IX
9.	Frequently change in tax act	67	75	57	27	226	VI
10.	Lack of good tax audit personnel	126	98	90	38	352	X
11.	Higher tax rate	141	117	96	44	398	XI
12.	Inadequate tax submission procedure	151	128	104	47	430	XII
13.	Inadequate facility and benefit	170	149	127	51	497	XIII
Total		1281	1091	909	364	3645	

Source: Field Survey, 2012.

While surveying about their income tax related problems, all the respondents felt that the delay procedure is the serious and top most problem facing among different problem. They give to these problem total 77 points and place it first rank. All respondents felt that inadequate facility and benefit is the last problem so they provide in total 497 points and placed it last rank.

D. Views on widespread discretionary powers of tax officers.

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

Table 4.14

Views on widespread discretionary Powers of tax officers

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	14	100	-	-	14	100
Plastic industries	12	100	-	-	12	100
Metal industries	10	100	-	-	10	100
Others(chemical, paper, plywood, press)	4	100	-	-	04	100
Total	15	100	-	-	40	100

Source: Field Survey, 2012.

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

E. Views on VAT in creating of complication in maintaining proper book keeping system.

VAT system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about the VAT creates complication in maintaining proper book keeping system, a question was asked, "Do you think VAT is creating complications in maintaining proper book keeping?" The respondents were requested to tick mark on Yes or No & opinions of the respondents are presented as follows:

Table 4.15

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

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	4	29	10	71	14	100
Plastic industries	-	-	12	100	12	100
Metal industries	-	-	10	100	10	100
Others(chemical, paper, plywood, press)	-	-	4	100	04	100
Total	4	10	36	90	40	100

Source: Field Survey, 2012.

Only 10% respondents believed that VAT is creating complication in maintaining proper book keeping system. According to them, VAT creates complications for those who try to evade tax in fact; VAT enforces them to maintain proper accounting system.

F. Views on penalties and fines imposed to the taxpayers

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

The responses of the respondents are presented as follows:

Table 4.16

Views on penalties and fines imposed to the tax payers

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	11	100	3	21	14	100

Plastic industries	12	100	-	-	12	100
Metal industries	10	100	-	-	10	100
Others (chemical, paper, plywood, press)	4	100	-	-	04	100
Total	37	93	3	7	40	100

Source: Field Survey, 2012.

From the above table and other discussion with respondents 93% of the respondents agreed that present rate of penalties and fines imposed to the tax payers is very high and only 7% is in favor of present rate. 93% from all respondents felt that present rate of penalties and fines are too much high and they demanded to reduce the present rate of penalties and fines.

G. Views on effectiveness of tax administration in Nepal

Nepalese tax system is very complicated. The system has not been more sufficient. To know the effectiveness of tax administration in Nepal the question is asked, "Do you think that tax administration in Nepal is efficient?" The responses of the respondents are presented as follows:

Table 4.17

Views on effectiveness of tax administration on Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	6	43	8	57	14	100
Plastic industries	3	25	9	75	12	100
Metal industries	4	40	6	60	10	100
Others(chemical, paper, plywood, press)	1	25	3	75	04	100
Total	14	35	26	65	40	100

Source: Field Survey, 2012.

It is clear from above table that majority of the respondents are dissatisfied with the present efficiency of tax administration. On the other hand only 35% are in favor of tax administration of Nepal. 65% of the respondents are against the present efficiency of thx administration. They felt that present tax administration is inefficient. 57% from food processing industries, 75% from plastic industries, 60% from metal industries and 75% from others felt that present tax administration are ineffective .

To know the efficiency of tax administration of Nepal, a question was attached with this if no please points out the reasons according to your priority in order to know the reason, the respondents were provided five reasons and were requested to tick them according to their priority.

According to the responses of respondents, the major problems which make inefficient of tax administration in Nepal are as follows:

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

In conclusion, according to the above rank the major reasons of inefficiency of tax administration in Nepal is frequent changes in tax laws and lack of computerization.

H. Views on effectiveness of present tax system

To know the effectiveness of the present tax system of Nepal, the question is asked, "Do you think the present tax system of Nepal is effective? Please tick". The responses of the respondents are presented as follows:

Table 4.18**Views on effectiveness of present tax system**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	8	57	6	43	14	100
Plastic industries	8	67	4	33	12	100
Metal industries	7	70	3	30	10	100
Others(chemical, paper, plywood, press)	3	75	1	25	04	100
Total	26	65	14	35	40	100

Source: Field Survey, 2012.

According to field survey 65% of the total respondents provided their view regarding effectiveness of present tax system. 35% of total respondents provided their view regarding ineffectiveness of present tax system. 57% of respondent from food processing industries, 67% respondents from plastic industries, 70% from metal industries and 75% from others felt that present tax system is effective. Similarly 43% from food processing industries, 33% from plastic industries, 30% from metal industries and 25% from others felt that present tax system is ineffective.

To know the effectiveness of present tax system of Nepal, a question was attached with this if yes please point out the reasons according to your priority in order to know the reason, the respondents were provided three reasons and were request to tick them according to their priority. According to the responses of respondents, the major reasons which make effective of present tax system of Nepal are as follows:

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

According to the respondents, the first reason for the effectiveness of present tax system is fair tax rate and exemption limit. Similarly, the present tax system is

effective due to effective tax administration, which is the second reason. Likewise, appropriate assessment procedure is the third reason for making present tax system effective.

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

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

Table 4.19

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

S.N.	Problems	Respondents				Total	
		Food processing industries	Plastic industries	Metal industries	Others	No.	%
1.	Yes	9	7	6	4	26	65
2.	No	3	5	2	-	10	25
3.	I don't know	2	-	2	-	04	10
Total		14	12	10	4	40	100

Source: Field Survey, 2012.

The above table shows that out of cent percent responses, 65% respondents were want exemption limit income tax to an entity, 25% were not agreed with exemption limit to an entity and 10% ideal. It is concluded that majority of respondents were agreed to provide the exemption limit to an entity. Some respondents felt that it is not necessary.

J. Views on existing income tax rates

Income tax act provided the different tax rates to different sector. To know the opinion about existing income tax rate, respondents were request to selected one

among the three alternatives (High, Low and Neutral) the question was asked, "What do you think about the existing income tax rates?" The responses received from respondents are tabulated below:

Table 4.20

Views on existing income tax rates

Respondents	High		Neutral		Low		Total	
	No.	%	No.	%	No.	%	No.	%
Food processing industries	4	28	5	36	5	36	14	100
Plastic industries	10	83	2	17	-	-	12	100
Metal industries	9	90	-	-	1	10	10	100
Others	4	100	-	-	-	-	04	100
Total	27	68	7	17	6	15	40	100

Source: Field Survey, 2012.

From the above table 68% of the respondents think existing income tax rate is high. Only 15% respondents are favors of existing rate and 17% think it is neutral. 28% from food processing industries, 83% from plastic industries, 90% from metal industries and 100% others present their view that existing rate is high.

K. Views on necessity of rebates to regular tax payer

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

Table 4.21**Views on necessity of rebates to regular tax payer**

Respondents	Yes		No		I don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Food processing industries	9	64	2	14	3	22	14	100
Plastic industries	6	50	3	25	3	25	12	100
Metal industries	10	100	-	-	-	-	10	100
Others(chemical, paper, plywood, press)	4	100	-	-	-	-	04	100
Total	29	72	5	13	6	15	40	100

Source: Field Survey, 2012.

From the above table it is clear that most of the respondents about 72% feel that rebate should be provided to regular tax payers. 13% of the respondents feel that rebates should not provided to regular tax payers and 15% respondents having no idea about that provision. 22% respondents from food processing industries and 25% respondents from plastic industries have no idea about that provision.

L. Views on complication faced in paying tax

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

Table 4.22**Views on complication faced in paying tax**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	7	50	7	50	14	100
Plastic industries	8	67	4	33	12	100
Metal industries	10	100	-	-	10	100

Others (chemical, paper, plywood, press)	3	75	1	25	04	100
Total	28	70	12	30	40	100

Source: Field Survey, 2012.

From the above table, it is clear that 70% of respondents face complication in paying income tax whereas 30% of respondents not face complication.

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

Table 4.23

Major reason of facing complication in paying income tax

S.N.	Problems	Respondents				Total points	Rank
		Food processing industries	Plastic industries	Metal industries	Others		
1.	Complex tax law and procedure	15	16	20	8	59	2
2.	Administrative inefficiency	7	12	13	4	36	1
3.	Corruption	20	20	27	121	79	3
Total		42	48	60	24	174	

Source: Field Survey, 2012.

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

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

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

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

Table 4.24

Views on problem facing in claiming tax refund in VAT

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	8	57	6	43	14	100
Plastic industries	10	83	2	17	12	100
Metal industries	8	80	2	20	10	100
Others(chemical, paper, plywood, press)	3	75	1	25	04	100
Total	29	73	11	27	40	100

Source: Field Survey, 2012.

From the above table out of total respondents 73% respondents were facing problems in claiming tax refund in VAT. 27% respondents were not facing problems in claiming tax refund.57% respondents from food processing industries, 83% respondents from plastic industries, 80% respondents from metal industries and 75% respondents from others were agreed to facing the problems in claiming tax refund in VAT.

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

To know the pervasive nature of problem that hinder the tax structure of Nepal the question is asked, "Among the below mention causes which you think is the pervasive nature of problem that hinder the tax structure of Nepal? Please rank." The

respondents were request to rank the given causes from 1 to 14. The responses of the respondents are presented as follows:

Table 4.25

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

S. N.	Problems	Respondents				Total points	Rank
		Food processing industries	Plastic industries	Metal industries	Others		
1.	Mass poverty	84	72	44	14	214	4
2.	Lack of tax consciousness	106	86	62	19	273	5
3.	Complicated tax laws	72	59	30	17	178	3
4.	Administrative deficiency	69	56	37	14	176	2
5.	Increasing corruption	34	39	12	8	93	1
6.	Inefficient personnel	99	89	89	31	308	8
7.	Leakage of collection	95	83	90	28	296	6
8.	Inappropriate rate	105	78	86	34	303	7
9.	Tax evasion	126	88	110	36	360	10
10.	Assessment difficulties	116	95	62	38	311	9
11.	Illegal business activities	128	119	99	41	387	11
12.	Narrow tax coverage	129	123	92	46	390	13
13.	Inadequate government policy	133	117	97	42	389	12
14.	Inefficient tax management	144	154	138	54	490	14
Total		1440	1258	1048	422	4168	

Source: Field Survey, 2012.

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

- a. Increasing corruption
- b. Administrative deficiency
- c. Complicated tax laws

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

According to field survey increasing corruption secured to most problem that hindered tax structure of Nepal. Respondents from different industries ranked it first problem which carry total 93 points. Respondents from different industries felt that inefficient tax management is the last problem that hindered the tax structure of Nepal. They felt that inefficient tax management is not so serious problem as other so they ranked it at last. They provide 490 points. Respondents felt that present tax management has less affected to the tax structure.

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

O. Views on tax planning system of the organization

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

Table 4.26**Adoption of tax planning system of the organization**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	-	-	14	100	14	100
Plastic industries	-	-	12	100	12	100
Metal industries	-	-	10	100	10	100
Others(chemical, paper, plywood, press)	-	-	4	100	4	100
Total	-	-	40	100	40	100

Source: Field Survey, 2012.

From the above table 100% of respondents do not take facility of tax planning. It is happening because most of them are not knowledge about tax planning. Similarly government does not take hard action who evades tax. So tax evasion is major problem of our country. If the facility of tax planning it make minimize tax evasion.

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

Nepal government makes some special tax policies for different industries. To know about special tax policy of manufacturing company, a question is asked, "Should the government prepared special tax policy of manufacturing company?" Respondents were request to tick mark on Yes or No. The responses received from respondents are tabulated below:

Table 4.27**Views on necessity of special tax policy for manufacturing company**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	12	86	2	14	14	100
Plastic industries	11	92	1	8	12	100

Metal industries	9	90	1	10	10	100
Others(chemical, paper, plywood, press)	3	75	1	25	04	100
Total	35	88	5	12	40	100

Source: Field Survey, 2012.

From the above table 12% of the respondents feel that government should not prepared special tax policy related to manufacturing company. 88% of the respondents feel that government should prepared special tax policy related to manufacturing company. 14% from food processing industries , 14% from plastic industries, 10% from metal industries and 25% respondent from others feel that government should not prepared special tax policy related to manufacturing company.

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

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

Table 4.28

Need of Tax benefit to the manufacturing industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Food processing industries	14	100	-	-	14	100
Plastic industries	12	100	-	-	12	100
Metal industries	10	100	-	-	10	100
Others(chemical, paper, plywood, press)	4	100	-	-	04	100
Total	40	100	-	-	40	100

Source: Field Survey, 2012.

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

R. Views on best income tax rate for manufacturing organization

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

Table 4.29

Views on best income tax rate for manufacturing organizations

Respondents	15-20%		20-25%		25-30%		Total	
	No.	%	No.	%	No.	%	No.	%
Food processing industries	7	50	5	36	2	14	14	100
Plastic industries	11	92	1	8	-	-	12	100
Metal industries	7	70	2	20	1	10	10	100
Others (chemical, paper, plywood, press)	3	75	1	25	-	-	04	100
Total	28	70	9	23	3	7	40	100

Source: Field Survey, 2012.

From the above most of the respondents about 70% agreed with the rate fall in between 15-20 percent. Only 7% respondents suggest increasing rate 25-30 percent and 23% agreed with present rate 20-25 percent. 50% from food processing industries, 92% from plastic industries, 70% from metal industries and 75% from others suggest to reduce tax rate in between 15-20 percent.

4.3 Findings

4.3.1 Finding from Secondary Data

The major findings of this dissertation are summarized as follows:

-) The major source of the government revenue is income tax. It may enhance the revenue of the justice and encourage private sector investment.
-) External revenue and internal revenue are included in government revenue. Tax and non tax revenue are the sources of internal revenue. There is dominated role of the tax revenue in Nepalese government revenue but contribution of tax revenue shows the increasing trend as it has contributed by 86.86% in fiscal year 2009/10 on the total but in non tax revenue was decreasing trend and it was 13.14% in fiscal year 2009/10.
-) Nepalese tax revenue is the composition of direct or indirect tax there is dominated role in indirect tax revenue. The direct tax was high in fiscal year 2008/09 by 29.32% and it was only 26.71% in fiscal year 2009/10. Indirect tax was fluctuating trend and it was 73.8% in fiscal year 2000/01 and 73.29% in fiscal year 2009/10.
-) Direct tax revenue is the composition of tax on property, profit and income and land revenue registration.
-) Indirect tax revenue is the composition of custom duty, VAT, excise duty and other taxes, the custom duty has occupied the first position and VAT has second position.
-) The tax GDP ratio of Nepal is not found satisfactory compare to other developing countries. The GDP ratio of tax revenue in fiscal year 2009/10 was 13.34% and non tax revenue was 2.02%.
-) Nepalese income tax revenue is composition of income tax from government sector, semi-government sector, public enterprises, private corporate bodies, individual's remunerations and tax on interest.
-) Income tax is the important source of internal revenue of government.
-) Income tax exemption limit in Nepal was Rs. 7000 for all taxpayer in 1959/60 but at present income tax exemption limit is Rs.160000for individuals and

Rs.200000 for couple and family, in 2067/68. The exemption limit is not provided for partnership firms, corporation and non – residents. It is found that exemption limit has been changed on the need of time and income.

Relations between income tax and direct tax revenue, tax revenue, total revenue, GDP have been found a perfect position correlated.

4.3.2 Findings from Primary Data

From the opinion survey the followings have been drawn.

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

Identification of the problems faced by Industries situated at Dharan Industrial State are as follows:

-) Delay procedure
-) Discretionary power of tax administration.

-) Corruption
-) Unclear provision of present income tax act.
-) Lack of systematic evaluation and control mechanism.
-) Frequent change in tax act.
-) Defective tax administration.
-) Unclear definition of income.
-) Improperly implementation of tax act.
-) Lack of good tax audit personnel.
-) High tax rate.
-) Tax submission procedure is also lengthy.
-) Inadequate facility and benefit.

Following suggestions are given by tax officers who has been working in manufacturing industries situated at Dharan state are given below:

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

CHAPTER –V

SUMMARY, CONCLUSIONS AND RECOMMENTATION

5.1 Summary

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

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

In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the economic development. Total expenditure of Nepal government has been increasing every year due to the expansion of government activities. Nepal is always facing with the financial problems every year. There is a serious problem of resource gap which is in increasing trend. In Nepal, government accumulates require fund mainly from internal and external source of finance regular and development expenditure. Because of the inadequacy of the internal sources for the development of the nation, Nepal comes under compulsion to rely on foreign loan and grants. Nepal has been unable for proper mobilization of internal resources therefore fiscal deficit of Nepal has been increasing day by day. Among the internal resources tax is pivotal one. Tax should play important role to solve the problems of fiscal deficit.

But in Nepal actual collection of revenue through tax is lower than estimated targets it is so because of the poor taxpaying habit of Nepalese tax payers, poor tax administration system and widespread evasion of tax.

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

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

Secondary analysis was done by presenting the relevant data into tables and figures consisting ten – year's period, i.e. from fiscal year 2000/2001 to 2009/2010. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the chapter.

Primary analysis was done by conducting opinion survey with the help of questionnaire. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result. This study has tried to present clear picture of income tax problem in manufacturing companies. Effort has made to maintain balance the theories and actual practices. The researcher hopes that the study has been completed with the successful achievement of the stated objectives.

5.2 Conclusions

Contribution of tax for the economic development of Nepal has been increasing significantly in recent years as compared to past ten years. But, it doesn't mean that

the share is satisfactory. So, much effort should be made to increase it. Presently, income tax management is done through the income tax act 2058 in which the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought out by change in technology and economic policies. However, still its working procedure is traditional and cost of administration has not been brought to the satisfactory level. Income tax 2058 has blamed that the law is complicated and vague. Their needs the effort for simplification of the law. If the tax law fails to be far with the international tax norms it will not be able to attract the foreign investment. The tax law should be coherence with the economic situation of the country.

According to the secondary data analysis, Income tax is one of the most important resources of the government revenue. Contribution of income tax for the economic development of Nepal has been increasing significantly in recent year.

According to primary data analysis, industries are facing serious tax related problems like delay procedure, discretionary power of tax administration, corruption, unclear definition of income, lack of systematic evaluation and control mechanism, frequent change in tax law, defective tax administration and so on. They are unsatisfied with present tax policies and system. They need modification in present income tax act 2058. According to them this act fails to achieve its objectives.

The major problems that hinder the tax structure of Nepal are increasing corruption, administrative deficiency, complicated tax laws, mass poverty and lack of tax consciousness and so on.

Income tax system of Nepal has not reached at the satisfactory level yet. Inefficient income tax management, lack of education to tax payers, complicated tax act, rules and regulation etc. are considered as the major problems in income tax system of Nepal.

For the success of income tax system, the tax management needs to be reoriented towards effective implemented of new act. Manpower development planning with the administration is desired for the deficiency of tax personnel.

Similarly, tax education packages have to be made and initiated to familiarize people with the existing tax laws.

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

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

5.3 Recommendation

On the basis of finding of this dissertation and information provide by account officer, tax officer and management level personnel of different manufacturing companies situated at Dharan industrial state has made following recommendation.

-) The objectives of income taxation should be growth redistribution and stabilization the income tax policy should be properly formulated on the basis of critical analysis of existing situation.
-) In the course of our study work, it has been found that not even a single company dealing to tax has no separate tax department. There are too tax executives in the companies in all the sample companies. The matters relating to tax are handled by finance officer or account officer. They may not have adequate knowledge about tax matters. Tax matter can be handled properly by the tax experts only. So it is recommended to set up a separate tax section which manages these matters by tax expert in the companies. The legal provision also should be made in this regard so that the tax practice of manufacturing companies would increase.

-) In Nepal, no distinction is made between resident and non – resident companies regarding the tax rate under the existing provisions of ITA. Both the companies are required to pay tax at the same rate. In many countries of the world foreign companies are taxed at higher rate than the domestic companies. Because of the difference in scope and coverage of the taxable income of their two groups of companies the tax rate should be different for those companies. As the domestic companies pays tax an income earned. In Nepal only, the domestic company should be taxed at lower rate than the foreign company.
-) Government should bring the policy to simplify the tax laws increase the efficiency of tax administration and simplify assessment procedure.
-) Focus should be given for proper implementation of present tax policy.
-) Present definition of income is vague. So there should be made clear definition of income what should include or excludes emphasis should be given on the full implementation of the policies already introduced rather than introducing the new ones, stop delay procedure, shouldn't make frequent change in tax act and discretionary power of tax administration should be reduced.
-) Due to low level of penalties and fines the income tax payers are encouraged to make illegal practices, taking the 100 poles in tax laws suppression of sales, overstatement of expenses and under statement of income seem very natural among the private companies as the companies hesitate to give the tax related information. So to control such practices of companies strong detection mechanism should be developed and levy fines and penalties in case of detecting such practices.
-) Presently the Inland Revenue Department controls the administration of income tax, excise duty, VAT and other taxes. However, as per findings, administrative inefficiency and delay procedure of administration have been the main reasons for obstructing the implementation of various taxes. Hence, it is necessary to upgrade the skills and efficiency of the tax officials. Training should be imparted to them in various aspects of taxes like tax audit, legal matters and computer so as to increase their efficiency. Personnel management

system should be developed under which evaluation of tax officials must be done on the basis of their overall performance.

- J Tax audit is very important for the success of self assessment system. Thus good knowledge of accounting and auditing is must for tax personnel.
- J Effective reward and punishment system should be established.
- J To make the administration capable of facing new challenges there should be improvement in professionalism as well as development of new professional ethics compatible to be changed context of liberalization.
- J Acts and rules relating to various aspects of tax as well as the industrial policy should be amended as per the requirement of business organization. Similarly, government should bring a policy to encourage the private sectors to invest in remote areas. And also clear cut provision should be made.
- J Due to block, strike and uncontrollable situation occurred in past day in Nepalese industries bared huge loses. So government should provide tax exempt to the industries.
- J Rebate should be provided to regular tax payer.
- J Training must institutionalized tax personnel should be given comprehensive training on various aspects of taxation in a parse wise manner. Similarly sufficient incentive to the employee should be given.
- J Government should form a special committee to carry out the serious problems and make suggestion to these problems of industries and make simple appeal procedure to refund the tax in VAT.
- J The government should efforts to find out the major causes of the tax evasion and adopt the proper method to minimize the evasion practice to the companies. For this purpose it is suggested that the government should improve the assessment and collection system, use strict penalty to all practice which help in tax evasion, improve administration and information system minimize illegal business, enforce to maintain accounts and convince the taxpayers by its equitable collection and expenditure policy to reduce tax evasion.

- J As the income tax payers in Dharan Industrial Manufacturing Company are facing many problems such as ill behavior of tax administration, complexity of income tax law and income tax procedure such problems should be removed using appropriate methods.
- J Timely revision should be made in the matter of income tax policy.
- J One of the main problems of industrialist are facing while importing raw materials or exporting their goods in the lack of proper transit facilities. The lack of proper transit facilities increase the price of the goods for valuation which also raise the custom revenue but is negative impact is very strong that the goods are imported without paying duty through under invoicing. Nepal has already obtained the membership of WTO. This will improve transit facilities on one had discharge the importers from evading custom duty due to low cost of transit.

BIBLIOGRAPHY

- Adhikari, B.D. (2059) *Income Tax Law; Past and Present*, Kathmandu: Bhrikuti Academic Publications.
- Agrawal, Govinda Ram (1978), *Resource Mobilization for Development: The Reform of Income Tax in Nepal*, Kathmandu: CEDA.
- Amatya, D.B. (1985), *Nepal Fiscal Issues: New Challenges* Kathmandu: Educational Enterprises Pvt. Ltd.
- _____(1986), *Nepal Fiscal Issues: New challenges*, Kathmandu: Educational Enterprises Pvt. Ltd.
- Amatya, Kedar Bahadur (1965), *Nepal Ma Ayakar ko Byabasta*, Kathmandu: Annapurna Press Ason.
- Bhattarai, Ishwor and Koirala, G.P. (2067), *Tax Laws and Tax Planning*, Kathmandu: Asmita Books Publishers and Distributors (P) Ltd.
- Bhattarai, Ishwor and Koirala, G.P. (2067). *Taxation in Nepal* (8th edition), Kathmandu: Asmita Books Publishers and Distributers (P) Ltd.

- Cutt, James (1969), *Taxation and Economic Development in India*, India: Vikas Publication.
- Deuja, K. B. (1969), *The Rate of Forest and Agro- based Industrial on Economic Development with reference to NIDC, Nepal Industrial Digest*, June 15, Calcutta: N.K. Gossian and Company Pvt.Ltd.
- Dhungana, Bhavani (1980), *Indirect Taxation in Nepal*, Kathmandu: CEDA.
- Dhungana, Bhavani, Kayastha, Narendra and Ray, Bal Prasad (1976). *An Analysis of Tax Structure of Nepal*, Kathmandu: CEDA .
- Gupta S.P. (1990), *Statistical Methods*, 25th edition Delhi, India, Sultam Chand and Sons.
- Kadel Puspa Raj (2067), *Tax laws and Tax Planning in Nepal*, Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Khadka, Rup Bahadur (2001), *VAT and Its Relevancy to Nepal*, Kathmandu: Ratna Pustak Bhandar.
- Lal, B.B. (1996), *Direct Taxes Practice and Planning* 3rd Edition, New Delhi: Knark Publisher.
- Mallik, Bidhyadhar (2060), *Nepal ko Aadhunik Aayakar Pranali*, 1st Edition, Kathmandu: Mrs. Anita Mallik.
- Pant, Y.P. (1970), *Problems in Fiscal and Monetary Policy*, 1st Edition, London: C. Hurst and Co.
- Pradhan, Radehy S, (1984), *Industrialization in Nepal a Micro and Macro Perspective*, New Delhi, NBO, Publishers.
- Regmi, Govinda Prasad (1994), *Industrial Growth in Nepal: A Sectoral and Regional Analysis*, New Delhi: Oxford and IBLT Publishing Com, Pvt. Ltd.
- Smith, G. Armitage (1924), *Principle and Methods of Taxation*, London: John Murry Albenarle Street.
- Subedi Baburam (1998), *Value Added Tax and Its Applicability in Nepal*, Kathmandu: Bhrikuti Academic Publication.
- T. Mathew (1977), *Tax Policy Some Aspects of Theory and Indian Experience*. Op. Cit, Report of The Indirect Taxation Enquiry committee (Part I) India, Ministry of Finance.

Wolff, K and Pant P. J. (2005), *Social Science Research and Thesis Writing*, 4th edition, Kathmandu: Buddha Academic Enterprises, Pvt. Ltd.

B. Dissertations Articles

Adhikari, Chandra Mani, Issues and Reforms in Nepalese Income Tax Administration, *Rajaswa*, Aug-Sept., year 7, 2001.

Adhikari, Prakash, K., The Nepalese Tax Administration Taxation and VAT, An Observation, *Rajaswa*, Year 17, No.2, 1991.

Bajracharya, Nirmala (1985), *Impact of Industrial Policy in the Process of Industrialization of Nepal*, Master Thesis Submitted to Tribhuvan University.

Baniya, Mahendra Bhadr (1979), *Exercise Taxation in Nepal*, M.A. Dissertation, Economics, T.U.

Basnet, Hem Chandra (2002), *Value Added Tax: present status and future prospect in Nepal*, Dissertation for Degree in Economics (T.U.).

Baral, Binita (1989), *Income tax in tax structure of Nepal*, MBA Dissertation, T.U.

Chudali, Baburam (2004), *Effectiveness of Nepalese tax policy on various business sectors*, MBS Dissertation, Nepal Commerce Campus.

Dahal, Tanka Nidhi (2005), *Income Tax Management in Nepal*, Dissertation for Degree in Economics (T.U.).

Dhakal, Arjun (2000), *Value Added Tax and Its Revenue Potential in Nepal*, Dissertation of Degree in Economics, T. U.

Dhungel Nita (2009), *Special Provision to Individuals under Income Tax Act 2058*, MBS Thesis, SDC.

Gautam, Ghanshyam (2003), *Problem and prospects of VAT in Nepal*, Dissertation Submitted to the Faculty of Humanities and Social Science, CEDA.

Ghimire, Milan (2005), *A study in tax administration in Nepal*, MBS Thesis, T.U.

Kandel, Puspa Raj (2000), *Corporate Tax Systems and Investment Behavior in Nepal*, Ph.D. in Economics, University of Delhi, Delhi School.

Katuwal, Ramesh Kumar (2005), *Contribution of Income Tax on Government Revenue of Nepal*, MBS.

Khadka, Rajendra (1996), *A VAT for Nepal*, MBA Thesis, SDC.

- Khadka, Rup Bahadur, *Taxation of Permanent Establishment Rajaswa*, Year 21, Vol.1, 2001.
- Khanal, Krishna(2011), *A VAT for Nepal*, MBS Thesis,SDC.
- Koirala, Deepak (1985), *Tax Incentives and Industrialization*, MBA Dissertation T.U.
- Nepal, Govinda (1979), *A Study on Customs Duty in Nepal*, M.A. Dissertation, Economics, T.U.
- Nepal, Mani Kumar (1995), *Structure and Responsiveness of Nepal's Tax System*. M.A.Dissertation, Economics, T.U.
- Nepal,Puspa,(2010), *A Study of problems and prospects of income tax in Nepal*, MBS Thesis,SDC.
- Pant, Hari Dhoj (1984), *Custom Duties in Nepal*, CEDA, Kathmandu.
- Panta,Keshab(2007), *Entitled problems in tax administration and their remedies*, MBS Dissertation,SDC.
- Panta, Parameshwar (1996), *A study on income tax management in Nepal*, MBS Thesis, T.U.
- Pradhan, Mangi (2007), *Taxation policy: Its Problems and Prospects upon Industries in Nepal*, MBS Dissertation, T.U.
- Regmi, Kumar Bikram (2008), *Income Tax Administration and Its Effectiveness in Nepal*.
- Subadi,Yub Raj(1979), *A Comparative Study of the Nepalese Tax System*, Master Thesis Submitted to T.U. for Degree in Economics.
- Thapa, Govinda Bahadur, *Tax System and Its Reforms*, Business Age, Vol.4, No.1, 2 Dec.,2002.
- Thapa,Jivan (2008), *Resource mobilization through VAT in Nepal*, MBS Thesis, SDC.

C. Government Publications

- Budget Speech of Various Fiscal Years, Ministry of Finance, Kathmandu.
- Economic Surveys of Various Fiscal Years, Ministry of Finance, Kathmandu.
- Annual Report of IRD, Various Fiscal Years.
- Statistical Year Book of Nepal 2011, Central Bureau of Statistics, Kathmandu.
- Government of Nepal, Custom Act 2064, Ministry of Law, Justice and Constituent Assembly.

Government of Nepal, Custom Rules 2064, Ministry of Law, Justice and Constituent Assembly.

Government of Nepal, Excise Act 2058, Ministry of Law, Justice and Constituent Assembly.

Government of Nepal, Excise Rules 2059, Ministry of Law, Justice and Constituent Assembly.

Government of Nepal, Finance Act, 2066, Ministry of Law, Justice and Constituent Assembly.

Wikipedia, the free encyclopedia, www.industrialdevelopment.com.

d. Others.....

9. Do you think exemption limits in income tax should be provided to an entity like in the case of individuals? (Please tick)
Yes () No () Don't know ()
10. What do you think about the existing income tax rates? (Please tick)
High () low () Neutral ()
11. Do you think rebates should be provided to regular tax payer? (Please tick)
Yes () No () Don't Know ()
12. Have you faced any complication in paying tax? (Please tick)
Yes () No ()
If yes, rank the following:
a. Complex tax law and procedure ()
b. Administrative inefficiency ()
c. Corruption ()
d. Others, please specify (.....)
13. Have you faced problems in claiming tax refund in VAT? (Please tick)
Yes () No ()
14. Among the below mentioned causes which you think in pervasive nature of problems that hinder the tax structure of Nepal. (Please rank)
1. Mass poverty ()
 2. Lack of tax consciousness ()
 3. Complicated tax law ()
 4. Administrative deficiency ()
 5. Increasing corruption ()
 6. Inefficient personnel ()
 7. Leakage of collection ()
 8. Inappropriate rate ()
 9. Tax evasion ()
 10. Assessment difficulties ()
 11. Illegal business activities ()
 12. Narrow tax coverage ()

13. Inadequate government policy ()
14. Inefficient tax management ()
15. Is there any system of tax planning in your organization? (Please tick)
Yes () No ()
16. Should the government prepared special tax policy for manufacturing company?
(Please tick)
Yes () No ()
17. Do you want to get any beneficiary form government in related to tax? (Please tick)
Yes () No ()
18. In your opinion what should be the best income tax rate for manufacturing organization? (Please tick)
a. (15-20)% b. (20-25)% c. (25-30) % d. Others.....