

CHAPTER-I

INTRODUCTION

1.1. Background of the Study

Nepal is an agriculture based under developed country the economic status of Nepalese people is very poor. The per capital income is near about \$ 470 which is lowest in the SAARC country and almost lowest per capital income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To launch these resources like money, man, machine and materials to obtain these resources a state receives income through external and internal resources. External resources can obtain as a loan and grants bilaterally or through international institutions. Internal resources include public borrowing, government bonds surplus on public under taxing & taxation the dependent icy on internal resources at higher extant might not be fruitful for long run, through the external resources have dominated the internal resources is most of the developing countries to depend upon the external resources heavily is not so good. Hence, the mobilization of internal resources becomes comparatively far better than external resources.

Among internal resources taxation is a prime factor it is the pillar of the fiscal policy. It is the backbone of the welfare state and government most imposes taxation to finance various welfare and social services like education, health, electricity, transportation, communication etc.

Among various taxes, income tax plays an important role in tax revenue. Income tax is imposed on those activities contributes to wards the creation of wealth is created with the help of labor, capital & capital labor activities that generate income from employment, investment and business. Being a developing nation, Nepal still has been unable to maximize the collection of income tax the importance of income tax has been increasing day by day and it has not only remained a sources of revenue for emergency but has become a regular sources of income for government.

Income tax is collected from various sources of profit and income. It is collected from public enterprises, semi-public enterprises, private corporate bodies, individuals etc in other words income tax is collected either direct or indirect.

1.2 Statement of problem.

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problem in the process of economic development Nepal is also not an exception to this condition. The majority of people have been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time thus; every nation of the world is accomplishing various activities to fulfill these objectives. It needs huge amount of capital. Despite the various measures adopted by the government to boost revenue collection there is still a subset entail resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. In other words Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficit, Currency depreciation, inflationary pressure, rising interest rates which may cause crowding out effect and reduction in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increase to level in which level and speed at our expenditure is rising. Raising the government revenue helps to overcome from the serious bottleneck of resource gap in the process of economic development programs by mobilization additional resources from domestic sources.

Income tax is one of the component of taxation and major sources of government revenue. Income tax in developing nations has been regarded as an instrument of growth and social justice. But Nepal Government is being unable to mobilize the expected income tax from personal as well as corporation. Most of the personal tax payers do not reveal the income sources even they earn significant amount. They hardly keep and show their proper accounts. Similarly, many research reports have addressed that tax evasion has become a serious problem as a result the actual collection of income tax is being very

low. So, the role of corporate income tax revenue is justifiable. Corporations are easily identifiable, keep their account and cannot escape tax liabilities. But corporate sectors in initial state of development in Nepal. The performance of corporate sector, specially the industry is very poor. Their number, profitability investment in fixed assets share in market transaction is all in weak position. There is no agreement as regards to various issues in corporate tax area. The debate is going on as regards to base of tax, method of taxing corporation, method and rate of depreciation, use of appropriate type of tax incentive, treatment of tax inflation. Such problem are developing countries generates more direct tax and less indirect but in developing countries generates more indirect tax and less direct tax etc.

1.3 Objectives of the study

The main objective of the study is to analyze the contribution of direct tax and indirect tax to national revenue of Nepal. Other specific objectives of the study are listed below.

1. To find the contribution of direct tax and indirect tax to national revenue in Nepal.
2. To analyze the structure of direct and indirect tax.
3. To analyze the contribution of corporate tax to national revenue of Nepal.
4. To find out the most important factors for effectiveness of income tax in Nepal.
5. Provide suggestions for effective collection of direct and indirect tax in Nepal.

1.4 Significance of the study

Nepal is an agro-based developing country with low speed in industrialization process. There are only a limited number of corporate bodies and their economic performance is very dismal so, there is need to growth and development of corporate sector in our nation the government needs huge amount of funds to spend on daily expense as well as development activities . Every year, Nepalese has been presenting deficit budget, there is increment in resource gap. Most of the development activities

depend on bilateral and multilateral grants and loans the nation is hardly bearing the loan and the internal sources of revenue is not sufficient event to meet the ordinary expenses. In this context the easy and long lasting way to increase revenue to strengthen the internal sources is through income tax in which corporate income tax is one of the major components. Thus, a comparative study contribute direct tax and indirect tax to national revenues of Nepal has been chosen as a relevant topic for the study

The study is useful to economist planners, tax officers, tax administrators, government and other in arrested person about the contribution of corporate sector in internal resources and the problem and prospects of corporate sector. It also provides the information about trends and projection of corporate income tax.

1.5 Limitations of the study

The study has the following limitations:-

1. The study is based on secondary data the reliability depends on it.
2. Some primary data also taken into consideration.
3. Main focus is given to direct and indirect tax of Nepal
4. This study has been conducted to fulfill the requirement of the MBS programmers of T.U. for the prescribed time.
5. Primary data were collected only from Kathmandu valley so it may not represent the country as a whole.

1.6 Organization of the Study

The entire study has been designed into five main chapters. They are:

1. Introduction
2. Review of literature
3. Research Methodology
4. Presentation and analysis of data

5. Summary, conclusion and recommendation.

The first introduction chapter includes statement of problem objectives of the study, need and significance of the study, limitations of the study and organization of study.

The second chapter Review of literature is done to know what research had been done in the related topic in previous days and what is to be done at present or in future this chapter has been divided into main aspects (1) Conceptual from work and (2) Review of related materials i.e. review of books, review of thesis, review of newspapers, magazines, journals etc.

Research methodology is mentioned in the third chapter it includes research design population and sampling, sources of data, procedure of data collection and tools used for analysis.

Presentation and analysis of data have been made in the fourth chapter the data collected from various sources have been tabulated in thesis sequential order and data have described, analyzed and projected with statistic too as well as general accounting and taxation principle.

The fifth chapter consists of brief summary conclusions and recommendation of the study. Lastly essential appendices and bibliography have been presented at the end of the study.

CHAPTER-II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1. Introduction

Generally income means the inflow of cash to the person of firm most of the people do not take the kind as income; it is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income from rendering various types of services selling goods and producing clops for their own use. Thus, income may be cash or kind that is received by a person for live hood.

Economists define the term income in a broad sense. It is an economic gain or receipt to a person during a particular by way of wages, interest, profit and rent. The money income of the people is generally used for two purpose part of income is spent on consumption and part is saved this definition can be pressed in the formula as follows.

$$Y-C+s$$

Where,

y = income

s = saving

c = Consumption

But the purpose of taxation the definition of income is somehow different from the aforesaid definition. According to income tax act, 1974(2031)" income means the income earned or received in cash or kind from the sources mentioned. They were as follows:

[ITA,1974]

1. Agriculture
2. Industry, Business, Profession or Vocation
3. Remuneration

4. House and land rent
5. Other sources.

The existing income tax Act, 2002 (2058), which has been enacted since 2058 chaitra (First, April, 2002) has defined income in section 2/a as person's income from any employment business as calculated in accordance with this act (ITA, 2002). It includes all sorts of income received for the provision of labour or capital or both of whatever form or nature in the taxable income.

Tax in simple terminology, a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the tax payer according to law. In the word of Seligman, taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to specific benefit conferred"

Income tax refers to the tax levied on the income of a person and profit of corporation for the specific time period particularly one year. Income tax is levied on the taxable income of a person or a company after, deducting allowable expenses. Accounting profits may differ from taxable profits for the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of income tax act are also subtracted then.

2.2 Tax

Tax free incomes allowance and common expensed are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

2.2.1 Meaning of tax

Tax is compulsory contribution from people to government to undertake work of public good. Many tax experts have given the definition of tax in their own words. They have focused the different aspect of tax according to their own view.

According to Prof Seligman "tax is 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 (Dhakal, 2058;1-2).

According to Plehn," taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the resident of the states"(Dhakal, 2058;2).

According to Layan." A tax is a compulsory payment to the government without expectation of direct benefit in return to the payer' (Amatya, 2060;).

From the above definitions it is clear that tax is imposed on the person by the government according to the law of the country the person on whom tax is imposed must pay taxes. Otherwise the law punishes him. The government doesn't provide any corresponding benefit to the tax payer for the amount of tax he pays. It is used for the common goods of the country. This means the government of the amount of tax paid by tax payer provides no special benefit

2.2.2. Classification of taxes:

Economists have classified taxes into several categories. The major categories of may be

- Direct taxes and indirect taxes
- Progressive taxes and proportionate taxes
- Regressive taxes and Digressive taxes.
- Single taxes and multiple taxes etc. However, taxes are broadly classified into direct taxes and indirect taxes.

2.2.2.1 Direct Tax

The direct tax on whom it is legally imposed cannot be transferred to others i.e. in direct tax the person paying and bearing the tax is same.

According to Dr. Dalton " A direct tax is really paid by the person on whom it is legally imposed.(Amatya,2060;2).

Some of the examples of direct taxes are as follows:

-) Income Tax
-) Property Taxes
-) Gift Tax
-) Interest Tax
-) Vehicle Tax
-) Death Tax etc

Advantage of Direct Tax:

The advantages of direct tax are as follows

-) In the direct tax, contribution in tax on the basis of his earning so it is certain
-) Since the tax payers know his contribution in the tax his consciousness increases to the expenditure of the government.
-) Tax rates are classic and can be adjusted as per the fiscal requirement of the country when there is need of more revenue government can impose high is low the tax rate can be minimized.

Disadvantage of direct tax the disadvantages of direct tax are as follows:

-) Mental pinch to the tax payers due to curtail down of their incomes and properties.
-) Taxes should be paid in advance on the estimation of the future income. Tax rate is also higher than indirect tax so tax payers feel inconvenient
-) The tendency of the tax evasion increase in the direct tax system because no one wants to cut down his or her incomes without the corresponding benefit

-) The tax payers are limited in direct tax so the direct tax lacks mass participation.
-) Most of the earning have to pay to government in the firm of the direct tax. So, it discourages saving and investment.

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2.2.2.2 Indirect Tax

The indirect tax on which it is legally imposed can be transferred to other , which means in direct tax the person paying and bearing tax is same.

According to Dr. Dalton "An indirect tax is imposed on one person but paid partly or wholly by another " (Amatya, 2065)

Some of the examples of indirect taxes are:

-) Sales tax
-) Entertainment tax (Vat)
-) Value added tax (Vat)
-) Excise duty
-) Hotel tax
-) Export and import duties etc.

Advantages of Indirect Tax

The advantages of indirect tax are as follows

-) Indirect tax is convenient to pay. It is charged services consumed by the consumers taxes are included in the price of goods and services so the tax payers do not feel that they are paying taxes.
-) Each and every consumer has to pay taxes while consuming the goods and services. So, there is mass participation of the tax payers in the indirect tax system.

-) Indirect tax is important tool for the checking of the consumption of the harmful goods and services by imposing the higher tax in the consumption of the harmful products like liquor, tobacco etc. can be reduced.
-) In the direct tax the change of the tax exaction is very much lower in compare to the direct tax because even the tax payer does not feel that he is paying tax.
-) Indirect tax is elastic in nature. In is an important tool of the government to apply its fiscal policy.

Disadvantage of the direct tax

The disadvantages of the indirect tax are as follows

-) There is uncertainly of government revenue from indirect tax variation of demand in goods and services differ the government revenue.
-) It is not equable to leave taxes on basic goods because the haves_are not_able to pay taxes in comparison to haves.
-) Indirect taxes have bad effect on consumption, production and employment because higher tax increases the cost of goods and services. As a result, consumption decreases and industries slowly begin to decline, employment decreases and ultimately the economy of country declines.
-) Consumers do not know that they are paying taxes. So, they lack consciousness regarding the use of the public revenue.
-) The agent may not to the government. Thus, there may be the change of consumer exploitation.

2.2.3Review of Related Materials

2.2.3.1 Review of Books and Articles

IMF working paper (International monetary fund IMF) fiscal affairs Department tax policy; Recent Trends and coming Challenges prepared by John Norregard and Techmina S. Khan. Dec 2007.

This paper provides an overview of the key economic factors that shape tax policy reform in many high income. Countries, developing countries, and / or transition economies. The paper describes and evaluates global and regional development with respect to tax rate and revenue ratios over the last some 20 years, and discusses selected structural reform initiatives that have been high on the policy agenda over this period. In particular, it focuses on developments relating to experiments with the restructuring of corporate tax, the impact of corporate taxes on IDI key reform initiative that have been high on the policy agenda. Over this period in particular it focuses on developments relating to experiments with the restructuring of corporate tax, the impact of corporate taxes on IDI, Key reform initiatives including dual income taxes and flat taxes, as well as the world wide spread of the VAT and policy development associated with climate change and natural resource taxation.

In 2003, Mr. Girija Prasas Koirala and Mr. Ishwor Bhattarai published two books. The first one is for the BBS 3rd year named "Taxation in Nepal ". The second one is for the BBS 2nd year named "Tax laws and tax planning. Both books have shown how taxable incomes have computed unclear employment business and investment sources.

In 2003, Dr. Puspa Raj kadel published two books named 'Tax laws and Tax planning and second one was 'Nepal ko Bartaman Kar byabastha'. This book has been designed to the syllabus of BBS 3rd year. Theoretical as well as practical aspects of taxation have put in his book.

In 2004 Mr. Jagadish Agrawal has published a book entitled, "Income tax, theory and practice," this book has focused on the students of chartered accounts and taxation. This book has also focused to be a practioners' reference and handbook, rather than the cortical compilation on the subject. His book is not only based on description fact but also has interpreted the various provision of the new act. Some sections of ITA 2058 act have compared with the international act have compared with the international accounting standard.

In 2008, Dr Kamal Deep Dhakal had written an article entitled “Historical perspective on income tax in Nepal “ this article has describe previous income tax act and shown main fatigue of income tax act 2058 are as follows:

-) Provision of set and carry forward of losses.
-) Classification and pooling of depreciable Assets.
-) Tax on capital gain
-) International taxation
-) Medical tax credit
-) With holding payment and quantification allocation and characterization of the amounts:

Mr. Pant (2004), had written an article entitled” problems in tax administration and their remedies” published in journal of finance and development ‘Rajaswa’ 2004, April vol1. He had comprehensively explained about the problems and their remedies related with tax revenue and major types of practical problems and challenges in tax administration. He had mentioned in his article were showing limited amount of transaction showing low selling price, lack of issuing and taxing bills, lack of showing the real factory cost, commercial trend, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between inland Revenue Department and Revenue investigation unit. Meanwhile, he had recommended some valuable suggestions to solve the problem and to overcome the challenges. They were statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between inland Revenue office with various entities of Government Revenue Investigation Department and its related unit should play the important role and auditing on the topic “corporate tax structure and production” in 1993 which prepared by JEFFREY BERNSTEIN and ANWAR. SHAH. They had conducted their research taking Mexico and Pakistan as a sample. As per their investment

tax credits investment allowances and accelerated capital consumption allowance were most effective promoting investment then more general tax incentives such as corporate tax rate reduction from that research they reached the summery and conclusion in the elasticity of rental rate of capital stock and in the benefit-cost ratio.

2.2.3.2 Review of Thesis

Mr. Shauh (1995), had conducted a research on the topic “contribution of Income tax in National Revenue of Nepal.” His research problems were the increasing resource gap and how income tax can be the means for resource mobilization. The main objective of this research were to show the contribution of income tax in government revenue to show the resource gap in Nepalese finance to highlight the importance of income tax as a source t avoid financial deficit to find out the rate and per capital burden of income tax and trend and structure of income tax in Nepal.

His research design was historical and descriptive. He had used only secondary data of 21 years from 1974/75 to 194/95. Data collection and analysis procedures were consulting the required government and non-government offices and simple arithmetic rule chart and diagram were applied to analyze data from that research he had found out and concluded that income tax can be the vital source for internal resource mobilization to fulfill resource gap. Only 0.35% of total population came and the categories of tax payers in Nepal during his research period. He found that collection of income tax was gradually growing and the contribution of income tax in total tax revenue and total national revenue were 9.95% and 7.94 % respectively similarly, he also concluded that individual tax payer had higher contribution income tax then salaried tax payer.

Mr. Lamsal(2001), had also present a thesis entitled "A study on contribution of income tax on government revenue" his research had mainly focused on the removing and controlling income tax evasion for better resource mobilization. His main objective was to analysis the impact of income tax evasion government revenue of Nepal he set further objective which were to indentify the way and cause of income tax evasion to estimate the volume and tendency of income tax evasion in small trade sector and to examine the

role of income tax initializing the resources in Nepal. Mr. Lamsal had conducted that research following analytical as well as descriptive research design. Most of the data were from primary sources. Primary data were collected through opinion survey field visit and interviews simple statistical analysis such as average and percentage were used as for data analyzing tools, graphs, charts and table were used interpret visually the finding of the research.

From that he had concluded that there was widespread evasion of income tax in Nepal and income tax in Nepal and income tax is a suitable means for raising domestic resources. He had recommended for controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evades, compulsion maintained of accounts etc.

Binita shrestha(2001), has presented a dissertation named, “Revenue collection from income tax in Nepal.” Problem and Prospects to T.U. In her study, she had described the conceptual framework, legal provision administrative aspect and structure of income tax in Nepal. She has been conducted an opinion survey in respect of problem and prospects of income tax in Nepal.

He finding about problem of Nepalese income tax system were mass poverty narrow tax coverage, and lack of consciousness of tax payer, predominance of agriculture widespread evasion and avoidance of income tax, unscientific tax assessment procedure in efficient tax administration, complicated tax laws and procedures instability in government policy. She had found various weak point of Nepal ease tax administration. The major weak point are: failure to maintain proper account and seconds defective selection of personally lack of trained and competent tax personnel, undue delay in making assessment , lack of motivating in tax personal, existence of corruption.

She suggests that income tax system will be succeeded if the system were widening of tax coverage, tax consciousness to people, minimize the evasion and avoidance problem, and enhance the self assessment system reform in income tax assessment and administration system.

Suresh kafle (2004), presented a dissertation named "Income tax contribution from Nepalese public enterprises with reference to Nepal electricity authority"

His finding was: income tax is a suitable source of mobilization domestic resources. It may enhance the government revenue promote socio- economic justice encourage private sector investment. Lack of clear transparent and progressive economic policy is the main reason for unsatisfactory with sound effectiveness of income tax system of Nepal. Existing cooperate tax rate has been found suitable and single rate for all types of corporation is preferred. Incensement of managerial efficiency of PEs clear income tax policy, rules and regulation, effective tax administration system and effective of some considerable points to increase the contribution of income tax from PEs.

2.3 Research Gap

There is gap between this research and the previous research most of the previous researches have focused the contribution of various income in the government revenue, structure of the government revenue and the income tax form various sources, tax structure etc. they have found that the contribution of income tax in government revenue is significant and it should be mobilized to economic development of Nepal. Almost all of them have indicated that the tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested improving the tax administration increasing the contribution of income tax in resource mobilization and winding the tax coverage. But they had not studied the direct and indirect tax.

CHAPTER- III

RESEARCH METHODOLOGY

This chapter is concern to detailed discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. There are six parts as research design, population and sampling, sources of data, procedure of data collection.

3.1. Research Design:-

The research topic entitled "A comparative study on contributing of direct tax and indirect tax to National revenue of Nepal" is abstracted from the socio-economic environments of Nepal. As the income tax system and structure is based on various rule regulations and acts which are always setting an different countries own socio-economic in restructures, descriptive research design is more suitable to analyze Nepalese corporate tax structure for contribution of corporate income tax, the study needs to analyze its past performance indifferent time period with respective indirect. So historical as well as descriptive research design is used.

3.2 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population. Income tax is taken as size. The population for primary belonging to income tax of Nepal. 90 simple size is selected form there different groups of respondents. The following table shows the group of respondents and sample size.

S.N	Group of Respondents	Sample size
1.	Tax administrator	30

2.	Tax expert	30
3.	Tax payer	30
Total		90

3.3 Sources of Data

According to the nature of the study, the study requires primary as well as secondary data.

Primary Data

Were collected through a schedule of self structured questionnaires, informal dialogues, discussion and interviews with concerned persons. Separate sets of questionnaires were used to have options/ information from three- sample population. To get the accurate and actual information total 90 questions were distributed to selected respondents of different group such as tax administrator, tax experts and tax payers. Set of 30 questionnaires were distributed and 25 of them were collected from each group for the purpose of analysis. The following table shows the questionnaire distributed and collected for each group of respondents:

S.N	Group of Respondents	questionnaire distributed	questionnaire collected
1.	Tax administrator	30	25
2.	Tax expert	30	25
3.	Tax payer	30	25

Total		90	75
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Secondary Data

Were annual report of IRD/N of different years, economic survey of various year, published by MDF Nepal Rastra Bank's Economic bulletin of various time and central business of statistics etc.

3.4 Data and Information Collection Procedure

Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulation and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as chamber of commerce, FNCCI, NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD/N, economic bulletin of NRB, economic survey of MOF, publication of security Board, CBS, publication of CEDA/TV, budget speeches etc. lastly, various journals, national newspaper are also reviewed. Respective parties are consulted while analyzing the research questions.

3.5 Data Analysis Procedure

The collection data are classified tabulated and analyzed in descriptive and analytical way as per the subject matter likewise, the required accounting principle, mathematical approaches and legal provision of ITA, 2058 are taken into consideration in data analysis procedure.

3.6 Presentation and Analytical Tools

Various tools are applied while conduction this study which is table, percentage, correlation time series analysis.

- a. Table: Various tables are formulated to tabulate the data. A matter table is also presented in the appendix.
- b. Charts and diagrams: These tools are used for visually description of the data, trend line, bar diagrams are used for the purpose.
- c. Correlation: Correlation may be defined as the degree of linear relationship between two or more variable two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variables. Correlation analysis is defined as the statistical technique which measures the variable which lie between ± 1 . If the value of correlation(r) is nearer to +1, this relationship is said to be perfectly positively correlated and vice-versa. We can compute the correlation simply by using direct method.

$$r = \frac{N \sum X y - \sum X \cdot \sum y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where,

N = No of observation

X = Variables

y = Variables.

d. Analysis of Time series:

A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. A time series shows the relation between two variables one being the time. The size of population in every decade the price level of the different in every month the volume of population in every year indicate the relation between the time changes and the changes in the value of other variables.

Time series analysis is mostly used in Business and economics, by which we can predict the value of variable for the future. Mathematically, a time series is defined as the time 'T' may be yearly, quarterly, monthly, weekly etc. There is various method of analyzing time series, least square method is showing trend and prediction in our research.

A widely and most commonly used method to describe the trend line and predication is method of least square. Under this method, a trend line is fitted to data satisfying $\sum (y - y_1) = 0$, and $\sum (y - y_1)^2$ is least from that the line obtained by this method is the line of best fit.

Where, y is the actual value and y_1 is the computed value of y .

Trend line, $y = a + bx$,

Where,

Y = Dependent variable

X = Independent variable

A = y intercept or value of y when $X = 0$.

B = Slope of the trend line of amount (of) change that comes in y for a unit change in x .

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Tax Structure of Nepal

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

4.1.1 Composition of Total Revenue.

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

Table 4.1.1 shows composition of total revenue of government which includes tax and non-tax revenue from FY 1998 /99 to 2005/ 06. It seems that the share of tax revenue has always been greater than the share of non tax revenue. In FY 2006/07, the share of tax revenue and non tax revenue was 79.45 and 20.55 respectively as compared with 77.19 and 22.81 in FY 1998/99. This indicates that the role of tax revenue is very much important expenditure. Tax revenue has been placed as major sources of government revenue in Nepal.

Table 4.1.1
Contribution of tax and non-tax revenue on total Revenue of Nepal from FY
1998/99 to 2005/06.

Source: Economic survey 2006/07

Fiscal Year	Total Revenue	Tax Revenue	Tax Revenue as % of total revenue	Non-tax Revenue	Non tax revenue as % of total revenue
1998/99	37251	28752.9	77.19	8498.1	22.81
1999/00	42893.7	33152.1	77.29	9741.6	22.71
2000/01	48893.9	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331	48175.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
Average	55056.21	42799.48	77.74	12256.74	22.26

The above table reflects that the tax revenue was gradually increasing in every year since 1998/99 amounting Rs 28752.9 million to Rs 57430 million in the year 2005/06. But the percentage contribution of tax revenue was found fluttering in different years. The contribution of tax revenue to total revenue was maximum 79.49 in FY 2002/03 during the study period and the average contribution was 77.74 in different years.

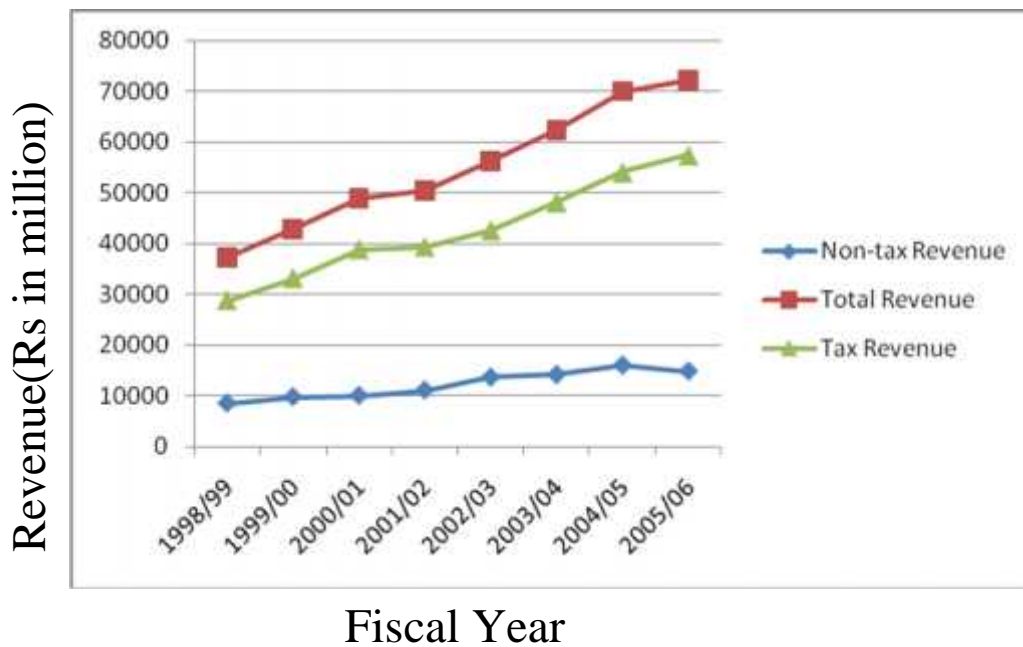
The non-tax revenue collection was also in the increasing trend in 8 year i.e Rs 8498.1 million in 1998/99 to Rs 14851.7 in 2005/06 the non-tax collection in 2005/06 was decreased to Rs 16018 million in the FY 2004/05. Then after, it was in the increasing trend.

The tax revenue collection was seen to be in the gradually increasing trend the contribution portion of non tax revenue to total revenue was fluctuating during the study period. It was decreased to 20.5 % in FY 2000/01 and was increased up to 24.26 in FY 2002/03 and average contribution was 22.26 during the study period.

The contribution of tax and non tax revenue on total tax revenue is shown in the following trend line.

Fig 4.1.1

TREND LINE SHOWING TAX AND NON-TAX REVENUE



4.1.2 Composition of Direct and Indirect Tax to Total Tax Revenue of Nepal

The structure of Nepalese Tax Revenue can be presented in terms of consumption, income and capital based tax. Taxes on consumption are known as indirect tax and taxes on income as well as capital are known as direct taxes. Custom duties excise duty, value added tax, entertainment tax, hotel tax, air flight tax and road and bridge maintenance tax are included in indirect tax and income tax, land tax, vehicle tax, wealth tax and other taxes are included in direct tax.

Composition of direct and indirect tax is presented in table no 4.1.2 the table shows that the share of indirect tax is more than the share of direct tax. The contribution of indirect tax was Rs 21236.8 million and Rs 7516.1 millions that is 73.86% and 26.14% of total tax revenue respectively in the fiscal year 1998/99 from the fiscal year 1998/99, the trend in % of indirect tax was declined up to year 2002/03 after that fluctuating trend.

Table 4.1.2. Composition of Direct and Indirect tax on Total Tax Revenue.

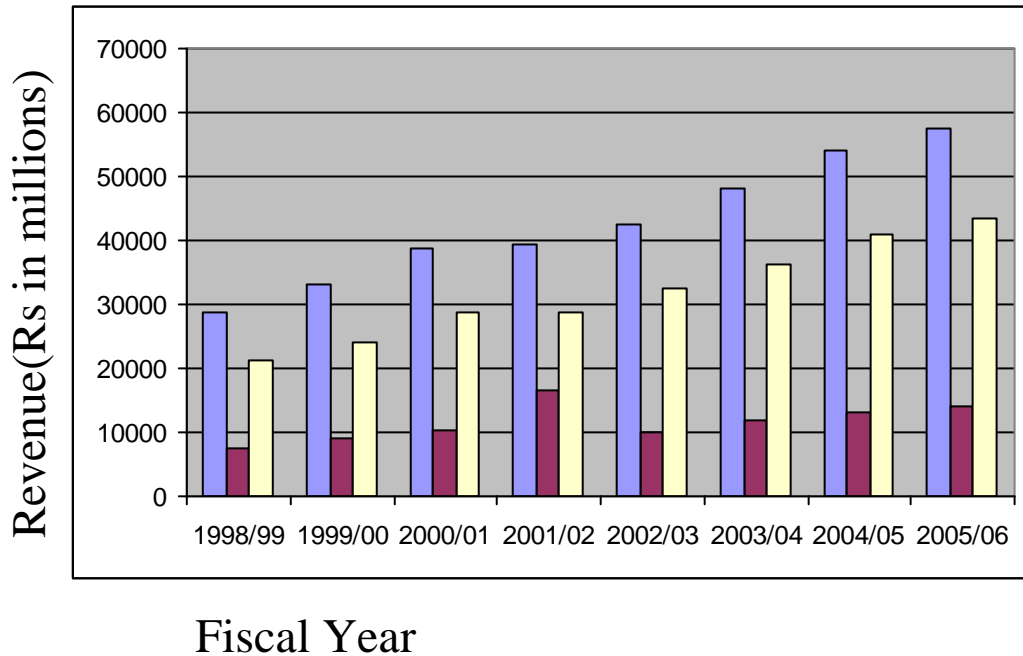
(In million and Percentage)

Fiscal Year	Total Tax Revenue	Direct Tax	% share of direct Tax to Total tax revenue	Indirect tax	% Share of indirect tax to total tax revenue
1998/99	28752.9	7516.1	26.14	21236.8	73.86
1999/00	33152.1	8951.5	27.00	24200.6	7.3
2000/01	38865.1	10159.4	26.34	28705.7	73.66
2001/02	39330.6	16597.5	26.94	28733.1	73.06
2002/03	42587.0	10105.8	23.73	32481.2	76.27
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
Average	42799.48	11535.35	25.42	31264.13	74.58

Source: Economic Survey 2006/07

Figure 4.1.2

Bar Diagram Showing Direct and Indirect tax on Total Tax Revenue



- Total Tax Revenue
- Indirect Tax
- Direct Tax

The table no 4.1.2 reveals that our economy is heavily dependent on indirect tax on comparison with direct tax. Indirect taxation with a dominant role in tax structure could be taken as a symptom of developing country to divert the economy in the channel of development, those countries should increase the share of direct tax in Nepal, the share of indirect tax is increasing and it is not good symptom of economic development the share of direct tax Rs 7516.1 million which has 26.14% of total tax revenue in the fiscal year 2005/06 where as in fiscal year 1998/99, the share of direct tax Rs 7516.1 millions which was 26.14% of total tax revenue, therefore, the attention should be focused on the sufficient resource mobilization through direct tax.

4.1.3 Composition of Indirect Tax

Nepalese tax structure is heavily dependent on indirect taxes, which constituted 275.68% of total tax revenue in 2005/06. Nepalese tax revenue is dependent mainly on

international trade and sales tax/ VAT on goods and services supplemented by taxes on income and property to some extent.

The major components of indirect tax in Nepalese tax structure constitutes custom duty excise duty, value added tax etc. Custom duty has been classified mainly into import duty and export duty. Value added tax components of sales tax entertainment tax, hotel tax, Air flight tax and contract tax.

Table shows the composition of indirect tax given as follows:-

Table No 4.1.3
Major Sources of Indirect Tax and Their Relative Percentage to Indirect Tax from the FY 1998/99 to 2006/07

(Rs In Millions)

FY	Indirect tax revenue	Total %	Custom duties	% of IDA	Excise duty	% of IDA	VAT	% of IDA
1998/99	21236.8	100	9517.7	44.82	2953.2	13.91	8765.9	41.27
1999/00	24200.6	100	10813.3	44.68	3127.6	12.92	16259.7	42.40
2000/01	28705.7	100	12552.1	43.73	3771.2	13.14	12382.4	43.13
2001/02	28733.1	100	12658.8	44.06	3807.0	13.25	12267.3	42.69
2002/03	32481.2	100	14236.4	43.83	4785.1	14.73	13459.7	41.44
2003/04	36260.4	100	15554.8	42.9	6226.7	17.17	14478.9	39.93
2004/05	41032.9	100	15701.6	38.27	6445.9	15.71	18885.4	46.02
2005/06	43462.3	100	15344	35.3	6507.6	14.97	21610.7	49.73
Average	3214.13	100	13297.34	42.2	4703.04	14.48	14763.75	43.33

Source:-Economic survey 2006/07

Note:-

1. Custom duties include imports+ export Indian excise Refund + others.
2. Excise includes industrial products
3. value added tax includes sales tax. Entertainment tax, Hotel tax, Air flight tax and contract tax.

Table reflects that the custom duty and VAT occupies major position in indirect tax. In FY 1998/99 the contribution of custom duty was 44.82% which fluctuated between 45% to 35% and it was 35.3% in the FY 2005/06. The average percentage contribution of custom duty to indirect tax was 42.2 during the study period.

The VAT has become an important source of overall tax revenue with fluctuating trend, which contributed 49.73 to indirect tax in FY 2005/06 as compared with 41.27 in FY 1998/99 the share of Excise duty was 13.91% in FY 1998/99 and it was 14.48 and Vat average contribution was 43.33% during the study period which is not satisfactory and it needs to increase in the future.

4.1.4 Composition of Direct Tax

The major components of direct tax are income tax, land tax, house and land registration tax. The share of major components of direct tax is given in the following table.

Table shows that the contribution of income tax to direct was higher than other tax and it occupied the largest share in the direct tax. The percentage share of income tax to direct tax in FY 1998/99 was 82.09% amounting Rs 6170.3 millions which gradually increased into 89.71 % amounting Rs 9114 millions in FY 2000/01. The average share of income tax revenue was 82.18%. It was 78.32% amounting Rs 10939.4 millions in the FY 2005/06 so this regular fluctuated in contribution % of income tax to direct tax is not satisfactory. It needs to increase by widening the tax net. The average share of income tax to direct tax revenue was 82.18.

Land tax has contributed 0.02 amounting FY 1.3 million in the FY 1998/99 which has decreased gradually and reach to zero percentage since 2002/03 and thereafter.

The share of house and land registration tax in the FY 1998/99 was 13.33% amounting Rs 1001.8 Million which gradually decreased to 5.98% amounting Rs 607.8 million in the FY 2000/01 and then if contribution began increased which was 18.61% amounting Rs 2181.1 million in the FY 2005/06. Urban house and land rent contribution was 4.56% in FY 1998/99 which was fluctuated over the four years and decreased to zero percentage since 2005/06.

The share of vehicle tax is 2.92 % in FY 1998/99 which was increased to reached 6.07% in FY 2005/06

4.1.5 Contribution of Direct Tax as Percent to GDP Total Revenue and Total Tax Revenue.

The contribution of direct tax as percent of GDP total revenue and total tax revenue is shown below.

Table no. 4.1.5

Contribution of Direct Tax as Percent of GDP Total Revenue and Total Tax Revenue.

Fiscal Year	Direct tax	% of Direct tax on total tax	% of Direct tax on total Revenue	% of DT on GDP
1998/99	7516.1	26.14	20.18	1.87
1999/00	8951.5	27.00	20.87	2.03
2000/01	10159.4	26.34	20.78	2.46
2001/02	10597.5	26.94	21.01	2.36
2002/03	10105.8	23.73	17.97	2.2
2003/04	11912.6	24.73	19.11	2.38
2004/05	13071.8	24.16	18.64	2.38
2005/06	13968.1	24.32	15.32	2.31
Average	10785.35	25.42	19.59	2.25

From above table it is clear that the contribution of direct tax on total tax revenue was 26.14 in FY 1998/99. Which was increased in 27% in the FY 1999/00? But after that it was decreased to 24.16 in the FY 2004/05. The share of direct tax to GDP seems to be very low. It was 1.87 in FY 1998/99 which grew up 2.46% in the FY 2000/01 and decreased to 2.31 in FY 2005/06. In the other hand, the share of direct tax on total revenue was fluctuated. Its contribution was 20.18% In FY 1998/99 which was fluctuated increasing 21.01 in FY 2001/02 and decreasing 17.97% in FY 2002/03.

4.1.6 Contribution of Income Tax in Nepal.

Nepal has late started parting of income tax the idea of introduction income tax in Nepal was originated along with the first budget on 1951. Finally in 1959, Business profit and Remuneration Tax Act 1960 was introduced. At that time income tax was levied only on business profits and salaries. After about three years experience of income tax, the

government replaced the prevailed tax and by income tax Act, 1974(2031) was enacted. However, this act is replaced by income tax Act, 2002(2058). The contribution of income tax on various revenue is given in the following table.

Table No. 4.1.6
Contributions of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue.

Fiscal Year	GDP	Total Revenue	Total tax Revenue	Direct tax Revenue	Income tax Revenue	% of IT on GDP	% of IT on DT	% on IT on TTR	% of IT on TR
2000/01	413429	48893.9	38865.1	10159.4	9114	2.20	89.71	23.45	18.64
2001/02	430397	50445.6	39360.6	10597.5	8903.7	20.7	84.02	22.64	17.65
2002/03	460325	56229.7	42587	10105.8	8131.9	1.77	80.47	19.09	14.46
2003/04	500699	62331	48173	11912.6	9514.7	1.9	79.87	19.75	15.26
2004/05	548485	70122.7	54104.7	13071.8	10466.1	1.91	80.07	19.34	14.93
2005/06	603673	72282.1	57430.4	13968.1	10939.4	1.81	78.32	19.05	15.13
Average	492834.67	360305	46748.477	11635.87	9511.63	1.94	82.08	20.55	16.01

Source: Economic Survey 2006/07

Table reflects that the income tax was increased three folds in 2005/06 as compared with 2000/01 total income tax was Rs 9114 million for the FY 2000/01 and it was increased to Rs 10939.4 million for FY 2005/06. The share of income tax on GDP of Nepal was very low. It lied between 1.77% to 2.2% during the study period. It was 1.77% in FY 2002/03 which gradually increased to 1.94 in FY 2005/06 .

The share of income tax to total tax revenue was fluctuated from 19% to 24% during the study period. It was 23.45 in the FY 2000/01 which was Decreased 19.05 in FY 2005/06.

Similarly, contribution of income tax to total Revenue was 18.64 in FY 2000/01 was fluctuated from 14% to 19% during the study period. It was decreased to 14.46% in FY 2002/03 and slightly increased to 15.13 in FY 2005/06. It means also clear that the contribution of Income tax in Direct tax was maximum, which occupied average 82.08 %

during the study period. It was 89.71 in 2000/01 which was decreased to 78.32 in FY 2004/05 this decreasing trend of contribution of income tax to Direct tax is not fruitful for the tax structure of developing country like Nepal.

4.1.7. Structure of Income Tax in Nepal of the Fiscal Year 2005/06.

In Nepalese income tax structure, the most important tax in comparison with other income tax. It includes income tax from public enterprises, public limited companies and private corporate bodies. In order to meet the government expenditure the government has to raise funds rate income tax is essential for not only to meet the government expenditure but also for socio-economic development of the nation.

The following table shows the structure of income tax in Nepal of the fiscal year 2004/05.

**Table no .4.1.7
Structure of Income Tax of the Fiscal Year 2005/06.**

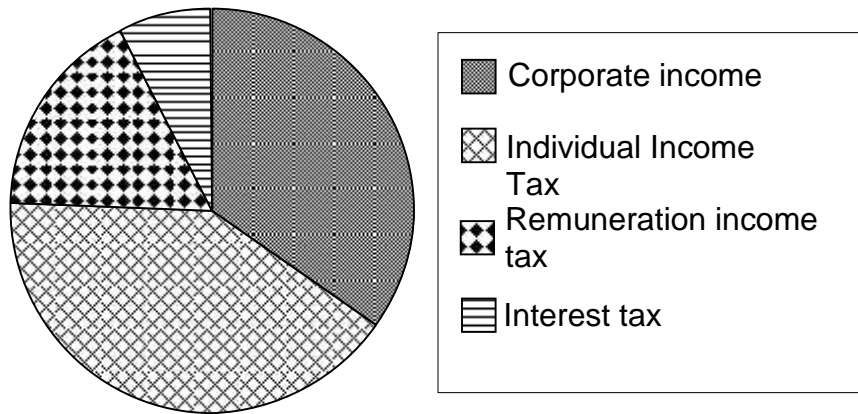
Components	Amounts	Percentage
Corporate income	3600	34.7
Individual Income tax	4234.7	40.82
Remuneration income tax	1764.1	17.01
Interest tax	774.9	7.47
Total	10373.7	100

Source: Economic survey 2006/07

There is Rs 10373.7 million total income tax Individual income tax was Rs 4234.7 million, which was 40.82, Remuneration income tax was Rs 1764.1 million and 17.01 % of share in total and interest was 7.47% of share and amounting Rs 774.9 million.

Figure 4.1.7

Structure of Income Tax of the Fiscal Year 2005/06



4.1.8 Role of Corporate Income Tax in Government Revenue of Nepal.

The prime concern of every nation of the world to be welfare state". In welfare state. The government has manifold political, economic and social function to perform. During the past years, the government expenditure in all countries has grown for various reason including increased out lays on welfare programs, education, defense transportation and communication.

Corporate income tax is a considerable source of public revenue. Corporate income tax was Rs 3600 million in the fiscal year 2005/06 which is 0.6% on GDP. In Nepal there is not adequate reconciliation system of the corporate income. The government set target about revenue collection. The tax administrators are required to meet the target only. Therefore the government target is most important rather than corporate profits. But now a days, the concept of self-assessment system has been accepted in income tax Act 2058.

Income tax is an instrument to narrow the income gap between rich and poor people as well as economic development of the nation. But being a developing country in Nepal sources of the government revenue is very limited. Income tax not only effective instrument to ensure balance socio-economic growth but also it increase the consciousness of people towards revenue.

Table 4.1.8 Contribution of Corporate Income Tax in Total Income Tax
(Rs millions& percentage)

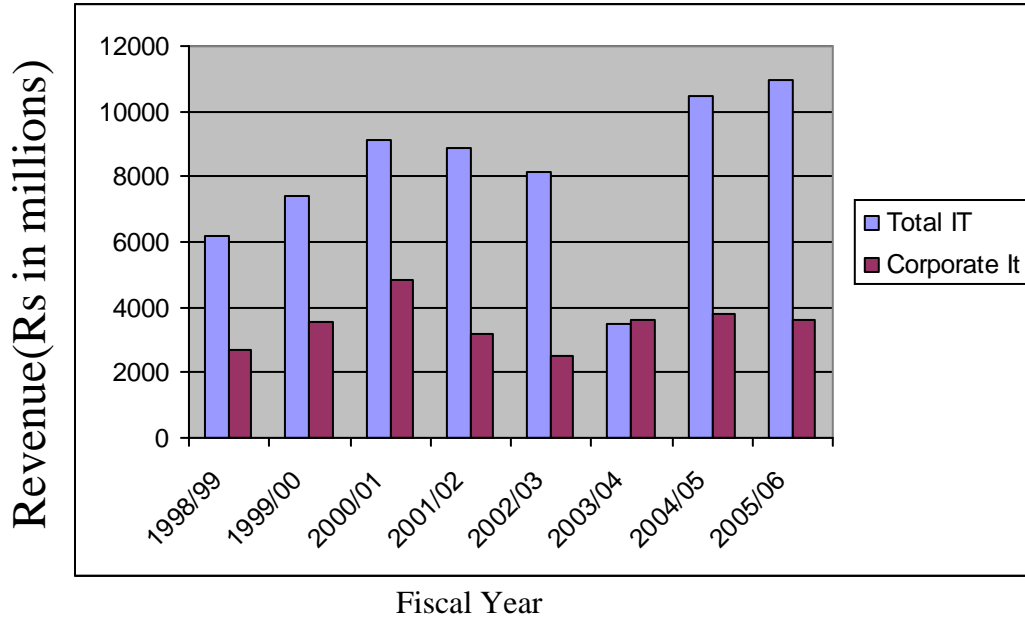
Fiscal Year	Total IT	Corporate It	Other IT	% increase Corporate IT	% increase other IT	% of corporate IT	% of other IT
1998/99	6170.3	2681.5	3488.8	-	-	43.46	56.54
1999/00	7420.6	3538.3	38882.3	31.95	11.28	47.68	52.31
2000/01	9114	4852.3	4261.7	37.14	9.77	53.24	46.76
2001/02	8903.7	3181.3	5722.4	34.44	34.28	35.73	64.27
2002/03	8131.92	2487.3	5644.6	21.81	1.36	30.59	69.41
2003/04	3514.7	3587.9	5926.8	44.25	5	37.71	62.29
2004/05	10466.1	3800.2	6665.9	5.92	12.47	36.31	63.69
2005/06	10939.4	3600	7339.4	5.27	10.10	32.91	67.09
Average	8082.59	3466.1	9741.49	22.60	10.53	39.70	60.30

Source: Economic Survey

Table 4.1.8 reveals the structure of total income tax and corporate tax as well as other income tax of Nepal. The table clearly shows the income tax "revenue including corporate income tax to the government of Nepal during the fiscal year 1998/99 to 2005/06.

Figure 4.1.8

Bar Diagram Showing Corporate Income Tax in Total Income Tax



In the Fiscal year 1998/99, the corporate income tax stood at Rs 2681.5 millions and raised gradually up to 4852.3 million in fiscal year 2000/01. But after rising steadily, the corporate income tax, decreased to Rs 2487.3 millions in the fiscal year 2002/03 which is because of economic imbalance in these years 2001/02 and from FY 2005/06 if we neglect these two fiscal years 2001/02 and 2002/03, the increasing trend of preceding years reveals satisfactory. Corporate income tax contributed 43.46% of total tax revenue and balance 56.54% was contributed from individual's remuneration and interest tax. In the fiscal year 2005/06, the share of corporate income tax is 32.913 and interest tax. The share of corporate income tax increased 32% to 54% while other income taxes fluctuated between 46% to 70% during the period of fiscal year 1998/99 to 2005/06.

The stable corporate income tax policies are required for long term investment because it directly affects the profit earning capacity of the corporation corporate income tax is possible only when there is corporate income.

4.2 Problems of Resource Gap in Nepal

The resource mobilization is the main challenge in the economic development of the country. The internal resource plays vital role in economic development of the country. Government collects their resources from different ways. The tax structure is major source of revenue for the government. Government has imposed two types of tax like direct and indirect tax. In the present tax structure the government revenue comes more from indirect taxes rather than direct tax. Tax policy has to be made a part of the instrument of the development goals.

The resource mobilization has been a major problem in financing of growing government expenses. Since the beginning of planned development of Nepal there has been tremendous increment in the size of government expenditure. The development works have to be carried out by the government in the initial stage. An increase in government expenditure creates additional demand in the economy through multiplier effects and there by induces arise in aggregate output. The government resources have been concentrated more on expanding economic over head in the form of transport, power and communication which will simulate agriculture, industry and transport in the private sectors.

The government expenditure is the main source of gross national investment and capital formation. Many studies have been attempted to examine the problem of resource gap and prospect of internal resource gap is the amount of excluding net foreign grants and loans. But the overall resource gap includes the contributions made by foreign grants and loans in financing public expenditure. The problem of resource gap has increased from one year to another which has been recovered through massive inflow if external capital regular expenditure is fulfilled by internal resources where as development expenditure is mostly depending in external resources. The dependence on foreign aid and deficit finance has not shown any declining trend. If the resource gap is minimized through the over dependence of foreign loans it can further creates the resource problem in the near future.

The problem of resource mobilization and resource gap is related to the saving and investment the level of income and the rate of interest influence the saving structure. The low rate of saving is prevailing in the country as result of low level of income of the people the low level of income creates the problem of resource mobilization for undertaking investment programmed in a large scale by both government and private sector.

Table No. 4.2
Domestic Resource Gap Pattern of Nepal
(Rs In Millions)

Fiscal Year	Total Govt. expenditure(A)	Total Govt. Revenue (B)	Resource Gap (A-B)	% of Resource gap total expenditure
1998/99	59,579	37251	22328	37.38
1999/00	66,272.5	42893.7	23378.8	35.28
2000/01	79835.1	48893.9	30941.2	38.76
2001/02	80072.2	50445.6	29626.6	37%
2002/03	84006.1	56229.7	27776.4	33.06
2003/04	89442.6	62331	27111.6	30.31
2004/05	102560.4	70122.7	32437.7	31.63
2005/06	110889.2	72282.1	38607.1	34.82
Average	84082.14	55056.21	29025.9	34.79

From the table, it is found that during the last 8 years period there was 30 to 38% and average 34.79% resource gap in Nepal. The amount of resource gap was in increasing trend up to 38.76 in FY 2000/01 amounting Rs 30941.2 million, which amount decreased to Rs 22328 million in FY 1998/99 and decrease to reach Rs 34.82 million in FY 2005/06.

Fig 4.2(a)
Bar Diagram Showing Resource Gap

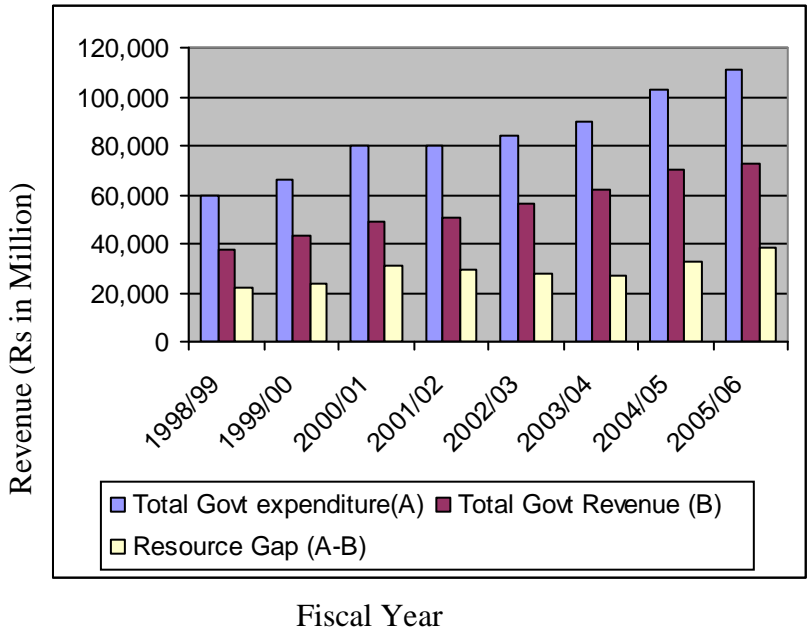
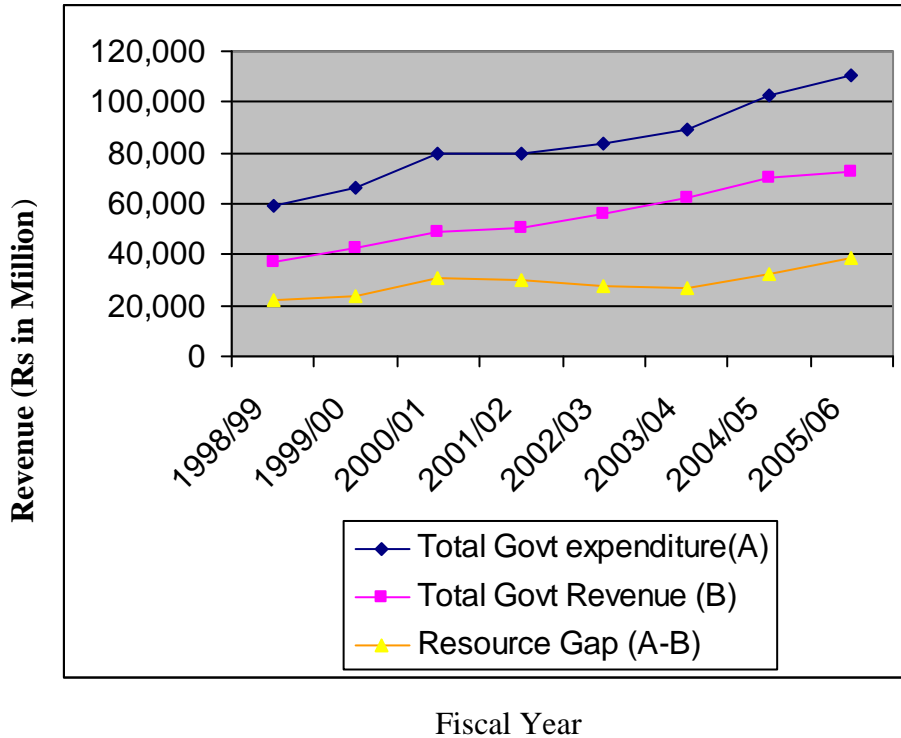


Fig 4.2(b)
Trend line showing Resource Gap in Nepal



The above table trend line shows that the resource gap was gradually increasing up to the FY 2000/01 and then it started to decrease except FY 2005/06.

4.2.1 Revenue Expenditure

Revenue expenditure gap is known as resource gap. In this contest, three types of gaps are measured and used in the analysis of resource gap.

Table No. 4.2.1
Overall Resource Gap Pattern of Nepal.

(Rs. In Millions)

Fiscal Year	Total Govt. expenditure(A)	Total Govt. Revenue (B)	Resource Gap (A-B)	Foreign Grants	Resource Gap 2 A-(B+C)	Foreign loan D	Resource Gap ³ A-(B+C+D)
1998/99	59579	37251	22328	4336.6	17991.4	11852.4	6139
1999/00	66272.5	42893.7	23378.8	5711.7	17667.1	11812.2	5854.9
2000/01	79835.1	48893.9	30941.2	6753.4	24187.8	12044.0	12143.8
2001/02	80072.2	50445.6	29626.6	6686.1	22940.5	7698.7	15241.8
2002/03	84006.1	56229.7	27776.4	11339.1	16437.3	4546.4	11890.9
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.1	13827.5	24778.9	8214.3	16564.6
Average`	84082.14	55056.21	29025.93	9291.125	19734.71	9132.89	10601.83

Resource Gap (A-B)

The gap between revenue and expenditure rose from Rs 22328 million in FY 1998/99 to Rs 38607% million in FY 2005/06 which is about two times than the FY 1998/99 this figure shows the poor performance of domestic resource mobilization.

Resource Gap² A-(B+C)

This type of resource gap was Rs 17991.4 million for the FY 1998/99 which was gradually increased to 24778.9 which was gradually increased to Rs 24187.8 of

maximum for that FY 2000/01. Then after it was decreased to Rs 15828.2 million for FY 2003/04 which was due to low proportionate increment in foreign grants from Rs 4336.6 in FY 1998/99 to Rs 13827.5 in FY 2005/06. There was maximum gap for respective year. This shows that foreign grants should be encouraged to increase for minimizing the gap.

Resource Gap³ A (B+C+D)

This resource gap is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. In FY 1998/99 the gap was Rs 6139 million which was increased to Rs 15241.8 million for FY 2001/02 and it was started to decrease gradually. It reached to Rs 8199.2 million for FY 2003/04 and attain increased rapidly to Rs. 16564.4 million for FY 2005/06 which was two times and more then 1998/99.

Moreover, foreign loan largely depends on the fiscal policy adopted by the nation.

If any government has a resource gap, it has to resort a deficit budget there was a large portion of foreign grants to meet the budget deficit in the early years budgets in Nepal but in recent years, the percentage of foreign loans is rising and percentage of grants is decreasing it is not a desirable direction for our country in self reliance. Moreover, foreign loan creates extra burden to the economy because debt servicing charge increase every year. The foreign loan should be taken as a complementary resource mobilizes internal resource properly.

4.2.2 Problems in Public Expenditure

Government expenditure is increasing along with its expanding activities in development and social activities. The increasing trend of government expenditure can be fulfilled either by internal resources or through inflow of foreign aid. The increasing rate of growth in government expenditure creates many problems in public expenditure management. As a result, deficit financing takes place in the economy. On the one hand the resource gap problem is increasing and on the other hand it has grown the inflation and price UN stabilization in the economy. There is two ways relationship between

resource mobilization and expansion is budgetary size in developing country. Government policy should be reformed for maximum resource mobilization in accordance with the expansion in economy that has taken place through the investment of public sector in development activities.

Development expenditure is mostly prepared in accordance with commitment of the donor agencies. But the disbursement of foreign aid has not been as per the commitment the lack of funding compels to delay the completion of the project. In the same way the donor agencies are too much involved in the decision making which create many problems in implementation and for the completed project by the funding agencies the problem stands to the government on the operation and maintains of the project.

Table No.4.2.2

Share of Government Revenue, Foreign Aid and CTR in Public Expenditure

Fiscal Year	Total Gov Expenditure	Total Gov Revenue	Total Revenue as % of T.E	Foreign aid	Foreign aid as % of T.E	CTR	CTR as % of T.E
1998/99	59579	37251	62.52	16189.0	27.17	2681.5	4.5
1999/00	66272.5	42893.7	64.72	17523.9	26.44	3538.3	5.34
2000/01	79835.1	48893.9	61.24	18797.4	23.55	4852.3	6.08
2001/02	80072.2	50445.6	63	14384.8	17.96	3181.3	3.97
2002/03	84006.1	56229.7	66.94	15885.5	18.91	2487.3	2.96
2003/04	89442.6	62331	69.69	18912.4	21.14	3587.9	4.01
2004/05	102560.4	70122.7	68.37	23657.3	23.07	3800.2	3.71
2005/06	110889.2	72282.8	65.18	22041.8	19.88	3600	3.25
Average	84082.14	55056.21	65.21	18424.01	22.27	3466.10	4.23

Source: Economy Survey

Table indicates the contribution of the government revenue in financing public expenditure. It was 65.21 % on average. Government revenue share was 69.69% of maximum in FY 2003/04 and maximum and 61.24% of minimum in FY 2000/01 during the study period. Similarly, the contribution made by foreign aid comprising both foreign grants and loan Came to 22.27 on an average.

It also clear from the table that contribution made by CITR to Government expenditure was fluctuated between 3 to 6 percent during study period. It was 4.5 % in FY 1998/99 and 3.25 in FY 2005/06 and minimum of 2.96% in FY 2002/03. The CITR had contributed 4.23% in an average to go the government expenditure.

Conclusion from the above analysis is that government disserving is increasing every year. Government's expenditure is increasing at a higher rate than the growth of government revenue. The growth rate of domestic saving has not increased substantially even the external capital inflow has been increasing with higher rate. As a consequence of which the resource gap is highly increasing instead of minimizing. In this context, the small amount or percentage of average 4.23 contributions by CITR will have the dwindling importance to fulfill resource gap from the internal resource.

4.3 Corporate Tax Structure

This chapter deals with the corporate tax rate and tax base. Divide into two section presents the rate structure of corporate income tax while the second reveals the present bade followed by Nepalese corporate sector.

4.3.1 Corporate Tax Rate Structure in Nepal

Tax rate is the base of measurement of tax liability. Tax should not be so high only for minimum revenue realization but should be activator for the private investment. A developing country like Nepal needs to boost up their economic conditions by developing industries and trade with in the country for this corporate tax rate also plays a vital role. Imposition of tax on corporate profit was started with the enactment of business profit and Remuneration tax Act, 1960 the start ion corporate tax rate was 25% and it was

levied on progressive way. The tax amount was calculated on different slabs before FY 1985/86.

The corporate tax rate structure was combined with individual tax rate structure. The reason was the numbers of companies were limited and private companies were generally managed by family in the year 1985/86 the progressive tax rate structure was abolished in case of government enterprises used to splat into different units to take advantage of taxing to private companies was abolished in the fiscal year 1995/96. Thus, flat rate system has been continued for all corporate bodies since the FY 1995/96.

The corporate tax rate structure was increased up to 60% the maximum rate in the FY 1995/96 from 25%. During 1960/61 to 1975/76, incensement of rates was made three times. After FY 1975/76, the tax rate again decreased up to 51% and 50%. His rate was again increased to 55% and remains continued from FY 1982/82 to till 1987/88 in the year 1987/88. The listed public limited companies were levied 10% less than others. This concession was given to such companies by only 5% in the year 1985/86. after the FY 1987/88, the tax rate was continuously decreasing now, it is 70% to industry (except cigarette and alcohol) 25% to genera, companies and 30% to banks and finance companies special fee 3% of taxable incomes was levied to all corporate bodies. The corporate tax rate structure of different years & presented as below.

Table No. 4.3.1
Corporate Tax Rate Structure in Nepal

Fiscal Year	Maximum marginal tax rate		Nature of Tax Rate
	Private Co	Public Co.	Progressive
1960/61-1962/63	25	25	"
1963/64-1964/65	30	30	"
1965/66-1966/67	40	40	"
1967/68	55	55	"
1968/69-1974/75	55	55	"
1975/76	60	60	"
1976/77-1978/79	51	51	"
1979/80	50	50	"
1980/81-1981/82	50	50	"
1982/83	55	55	"
1983/84-1984/85	55	55	"
1985/86	55P	55F	Progressive & Flat
1986/87-1987/88	55P	50F	"
1988/89-1989/90	50P	50F	"
1990/91-1991/92	40p	40F	"
1992/93-1994/95	35p	35F	"
1995/96	33	33	Flat
1996/97	30	33	"
1997/98-2006/07	20,25&30	20,25&30	"

Source:

1. Kandel, P.R.(2000), Corporate Tax System & Investment Behavior in Nepal.
2. Budget Speech, 2003/0/&2004/05
3. Finance Acts

Note: 20% tax rate for special industries 25% tax rate for general industries producing cigarette, bidi, liquor and industries uses as raw materials, 30% tax rate for non-industries for banking and insurance business.

4.3.2 Corporate Tax Base in Nepal

Under the income Tax Act, 2058 of Nepal corporate tax is levied on the total taxable income of the previous year. It has assumed the global or total as well as scheduler income tax. This act has divided the source of income into three major heads they are: income from business, income from investment and income from remuneration.

The third amendment of income Tax Act, 2058 has further clarified about calculating the adjusted taxable income and net taxable income from business, investment and remuneration. All the taxable income is added as per law and deduction allowable expenses such as general deduction. Reserve and risk-bearing fund and expenses, related with business and investment were deducted as per the law, which occurs adjusted taxable income. Then, in case of business income, pollution control and R&D expenses should be deducted taking the adjusted taxable income as base, after that we get assessable income from business and investment of current year and business loss of previous year are deducted to get the net assessable income from investment.

Total assessable income is calculated by adding the net income from business and investment from where common expenses and donation expenses can be deducted as per the law to get total taxable income. No exemption limit is provided to the companies. Special additional fee of 15% of taxable income is charged to the second slab where 25% tax rate is charged.

In Nepal, taxable income of a company is computed in the following manner:

Specimen format for computation of Business Income Computation of taxable income of
.....Co. for the assessment year.....

S.N	Particulars	Amt.(Rs.)	Amt(Rs.)
1.	Service charge(U/S-7-2)	++	
2.	Sales or disposal of Business stock(U/S-7-2)	++	
3.	Net profit or gain from the disposal of depreciable assets(U/S-7-2)	++	
4.	Amount received from the disposal of depreciable assets(U/S-7-2)	++	
5.	Prize or gifts received in connection with business(U/S-7-2)	++	
6.	Amount received in lieu of acceptance of restrictions regarding business(U/S-7-2)		
7.	Amount received from any investment directly related to business		
8.	(U/S-22.6)		
9.	Income included under the provision of accounting methods (U/S-24)		
10.	Excess amount received due to exchange rate variation (U/S-24.4)		
11.	Bad debts recovered (U/S25.1)		
12.	Proportionate amount received under long-term contract(U/S-26.1d)		
13.	Underpayment of interest due to market rate variation (U/S 27.1d)		
14.	Receivable amounts paid to others (U/S-29)		
15.	Amount received for compensation (U/S-31)		
16.	Other amount received under the head of business income.		
A. Total	Gross(Assessable) income from Business		
	Less: Allowable deductions:		
1.	General deduction(U/S-13)		
2.	Interest expenses(U/S-14)		
3.	Cost of business stock(U/S-15)		
4.	Repair and maintenance expenses (U/S-16)		
5.	Depreciation expenses (U/S-16)		

6.	Reserve funds for banks and insurance business(U/S-59.1a)		
7.	Other expenses as per income tax Act, 2058		
B	Deductible Business Expenses		
	Adjusted assessable income from business(A-B)		
	Less		
8.	Pollution control expenses (U/S-17) 50% of adjusted assessable income or Actual paid amount(Whichever is less)		
9.	Research and development expenses (U/S-18)50% of adjusted assessable income or Actual paid amount(whichever is less)		
C	Net (assessable) income from business before carry forward of previous loss and donation		
	Less: Carry forward of losses		
1.	Loss from other business in current year(U/S 20.1a)		
2.	Previous years cumulative losses(U/S-20.1b)		
	Net (assessable) income from Business		

Format for Computation of Investment Income

Computation of taxable income of.....for the assessment year.....

S.N	Particulars	Amt(Rs.)	Amt(Rs)
1.	Dividend (Gross)(U/S-9.2)	+++	
2.	Gain from insurance investment (Gross) (U/S-9.2)	+++	
3.	Interest received (Gross) (U/S-9.2)	+++	
4.	Rent received (Gross)(U/S-9.2)	+++	
5.	Payment received (Gross) (U/S-9.2)	+++	
6.	Royalty(Gross) (U/S-9.2)	+++	
7.	Amount received from disposal of depreciable assets (U/S-9.2)	+++	
8.	Gifts received in respect of investment (U/S)	+++	
9.	Amount received as consideration for accepting a	+++	

	restriction on investment (u/S-9.2)		
10.	Income to be included due to change in accounting methods(U/S-22.6)	++++	
11.	Excess amount received due to change in accounting methods (U/S-27.1d)	++++	
12.	Bad debts recovered related with investment (U/S-25.1)	++++	
13.	Under payment of interest in comparison to market rate (U/S-27.1d)	++++	
14.	Receivable amount paid to others(U/S-29)	++++	
15.	Income received from compensation the amount be included under investment income(U/S-31)	++++	
16.	Amount received from compensation the amount be included under investment income(U/S-31)	+++	
17.	Other amounts to be included under investment income	+++	
18.	Gross assessable income from investment Less: Deductible Expenses		
19.	Interest expenses(U/S-19)	+++	
20.	Repair and improvement expenses (U/S-16)	+++	
21.	Depreciation expenses (U/S-19)	+++	
22.	Expenses related with investment	+++	
B.	Total deductible expenses		
	Assessable income before carry forward of loss (A-B)		
	Less: Carry Forward of losses a. Loss in business (Current year) b. Loss in investment (Current year) c. Carry forward of loss from previous year business Net(assessable)income from investment.		

Statement of Total Taxable Income

	Net(assessable) income from business		++++
	Net(assessable) income from investment		++++
	Total net (assessable)income shown by assesses		++++
	Less: Common expenses		
	Donation	++++	
	5% of net assessable income or actual paid or Maximum limit Rs. 100000(Whichever is less)		++++

Computation of Tax Liability

	Total Tax Liability= taxable income Rate		++++
	Less: Advance tax paid		++++
	Tax amount to be paid		++++
	Add: Special fee(1.5% of Rs Balance amount		
	Total amount payable		++++

4.3.3 Contribution of Corporate Income Tax

Contribution of corporate income tax on total revenue, tax revenue, direct tax revenue, income tax revenue, its composition and its trend line for 13 years has been drawn in this sub-chapter. Taking the FY 1990/00 as the bases year.

Projection has been made for next three years the relationship of CITR with other taxes and total revenue and its coverage portion has been examined.

4.3.3.1 Contribution of Corporate Income Tax on Total Revenue

Corporate income tax plays an important role in Nepalese government revenue. The composition of national revenue government revenue has been shown in master tables the following table has been drawn to shown the contribution portion of CITR in different time periods in percentage and amounts also.

Table No. 4.3.3.1**Contribution of CITR on Total Government Revenue**

Fiscal Year	Total Revenue	Total %	Corporate income			%	Total CITR	% CITR
			Public Sector	%	Private sector			
1998/99	37251	100	1526.5	4.1	1155	3.1	2681.5	7.2
1999/00	42893.7	100	2198.8	5.13	1339.5	3.12	3538.3	8.25
2000/01	48893.9	100	2928	5.99	1924.3	3.94	4852.3	9.92
2001/02	50445.6	100	1769.3	3.51	1412	2.8	3181.3	6.31
2002/03	56229.7	100	1251	2.22	1236.3	2.2	2487.3	4.42
2003/04	62331	100	2056.6	3.3	1531.3	2.46	3587	5.76
2004/05	70122.7	100	1332.4	1.2	2467.8	3.52	3800.2	5.42
2005/06	72282.8	100	195.7	0.27	3404.3	4.71	3600	4.98
Average	55056.3	100	1657.29	3.22	1808.81	3.23	3565.99	6.53

Source: Economic Survey

Above table reflects of corporate income tax to total revenue during the study period was fluctuating from 6 to 10% the share of corporate income tax revenue was 7.2% amounting Rs 2681.5 million in the FY 1998/99 in which 4% of total revenue was covered only by government sector. Later on the share of CITR to total revenue has slowly increased up to 9.92 % of maximum in the FY 2000/01 amounting Rs 3181.3 million during the study period. Where intra-structural composition of corporate sector was also dominated by government sector. Political imbroglio, unfriendly environment for smooth operation of business was some of the main reason for Nepalese corporate sector unable in improving its competency. As a result contribution of CITR to total revenue was sharply decreased from 9.92% to 4.42 % in FY 2002/03 at 2005/06 4.98% amounting Rs 3600 million.

Total national revenue was also in increasing trend which was not only the cause of better implementation of fiscal policy and positive macro-economic indirect or but it was also due to expansion of taxation and revenue net. This table also show that the

private sector's tax collection was increasing trend except 2001/02, 2002/03 but private sector's tax collection percent to total revenue was only around 3 to 5%. Nepal has liberalized the economy and privatized about 24 public enterprises and companies during the last decade. Likewise, tax collection from public enterprises seemed to be increasing up to 2000/01 which contribution portion was 65.99 but later than it was decreased to 0.27 in 2005/06.

Never the less Nepalese corporate sector is contributing to total revenue about 9% which seems to be very small portion comparing to other developing countries.

The contribution pattern of corporate income tax to total revenue has been shown in the following bar diagram and trend line.

Fig. 4.3.3.1(a)

Bar Diagram Showing Total Revenue on Public and Private Sector

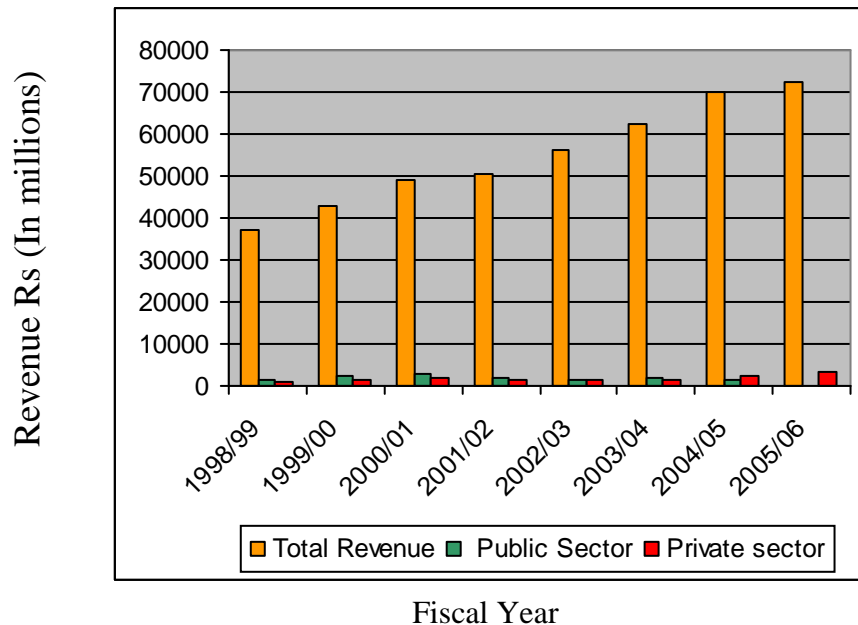
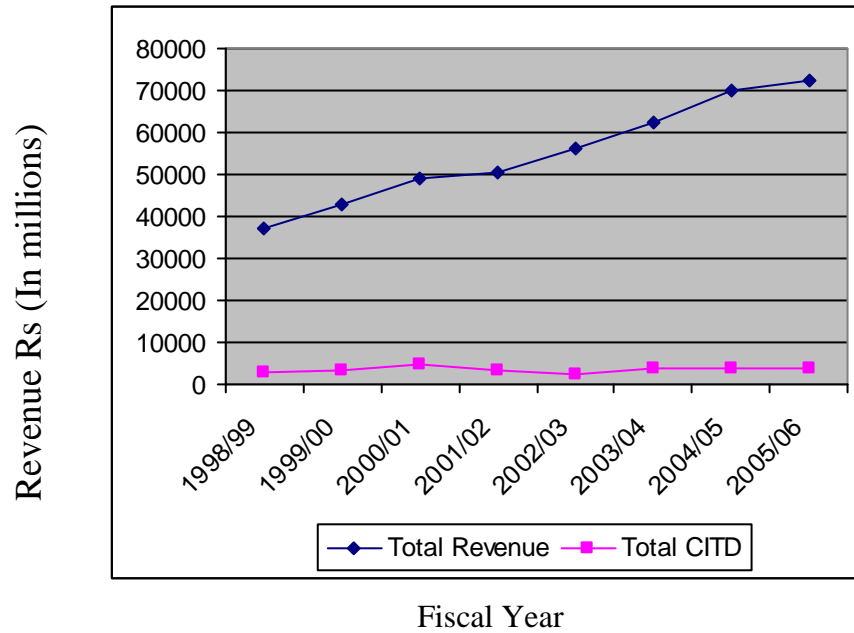


Fig 4.3.3.1 (b)
Trend Line Showing CITR and Total Revenue.



In this bar diagram total revenue is shown in y-axis and fiscal year in x-axis. Comparing with, total revenue corporate income tax revenue seems to be very low. The intra-structural composition of corporate tax seems to be slightly changed. It is also known that the contribution private and public sector has increased comparing to beginning year of the study period.

4.3.3.2 Contribution of Corporate Income Tax on Total Tax Revenue

Total tax revenue composed of direct tax and indirect tax total tax revenue is mostly affected by CITR and its enhancement by the country the following table has been drawn to know the Nepalese CITR's contribution portion to total tax revenue.

Table No. 4.3.3.2
Contribution of CITR on Total Tax Revenue

Fiscal Year	Total Revenue	Total %	Corporate income tax				Total CITD	% CITR
			Public Sector	%	Private sector	%		
1998/99	28752.9	100	1526.5	5.31	1155	4.02	2681.5	9.35
1999/00	33152.1	100	2198.8	6.63	1339.5	4.04	3538.3	10.67
2000/01	38865.1	100	2928	7.53	1924.3	4.15	4852.3	12.48
2001/02	39330.6	100	1769.3	4.50	1412	3.59	3181.3	8.09
2002/03	42587	100	1251	2.94	1236.3	2.9	2487.3	5.84
2003/04	48173	100	2056.6	4.27	1531.3	3.18	3587	7.45
2004/05	54104.7	100	1332.4	2.46	2467.8	4.56	3800.2	7.02
2005/06	57430.4	100	195.7	0.34	3404.3	5.93	3600	6.27
Average	42799.48	100	1657.29	4.25	1808.81	4.04	3565.99	8.39

Source: Economy Survey

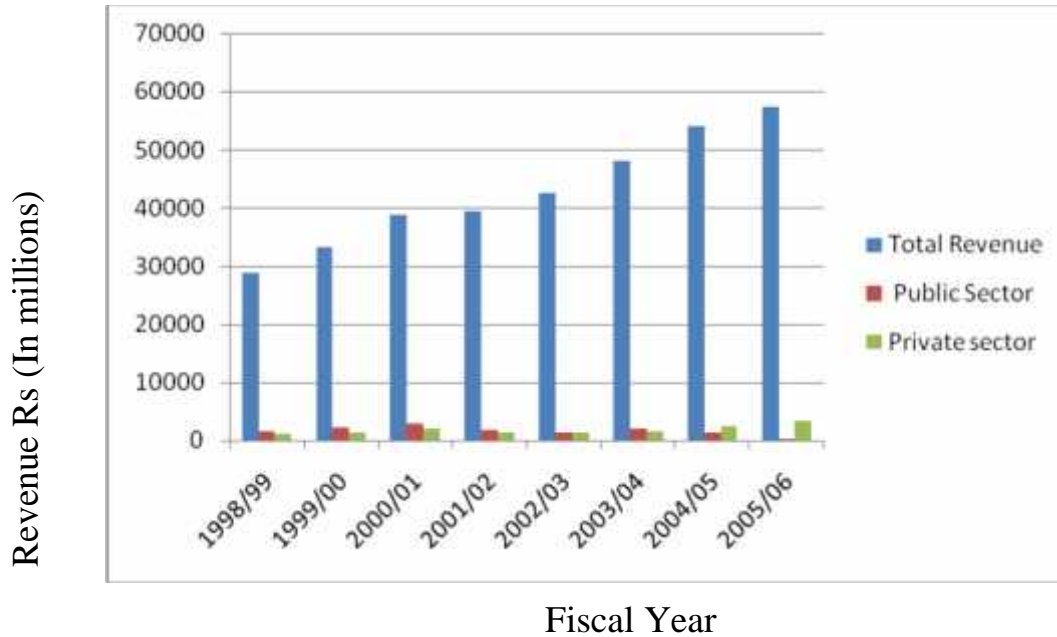
The above table shows that the CITR contribution to total tax revenue was fluctuated during the study period. It was 9.33% in the FY 1998/99 which was gradually increased and reached 12.48% of maximum contribution in FY 2000/01. But this contribution was decreased and reached 6.27 in FY 2005/06 and lowest contribution during the 8 years period CITR contribution was 5.84% in FY 2002/03 such kind of lower collection of corporate income tax which might be the result of political instability, unfriendly environment for operation industry trade and business. More over CITR has been contributing 8.39% on average to total tax revenue, which regards the small but important portion contributing to total tax.

The structural composition of corporate income tax seemed to be changed during the study period. In FY 1998/99 about near half was covered by public and private sector with in 8 year in the FY 2005/06 the contribution from public sector was 0.34% but

private sector is 6.27% the tax contribution percentage from private sector is 3% to 6% during the study period the lower contribution of private sector was 2.9% in FY 2002/03 and public sector was 0.34 in fiscal FY 2005/06. The contribution of CITR to total tax revenue has been shown in bar diagram and trend line as below.

Table No. 4.3.3.2 (a)

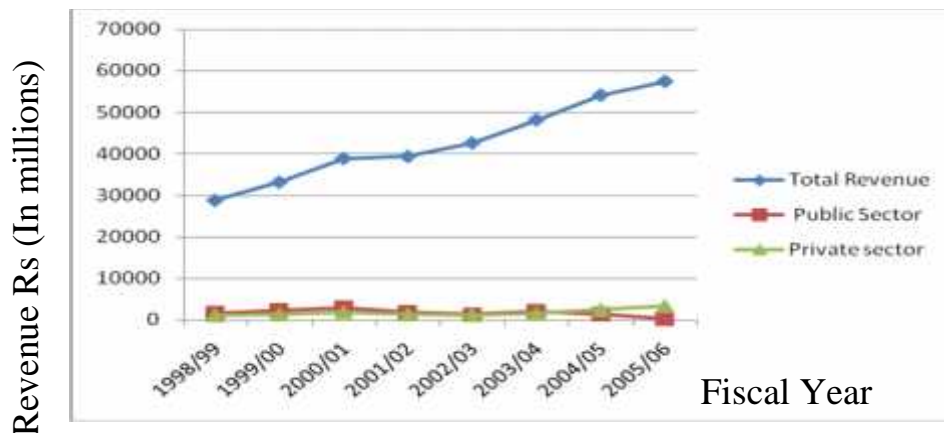
Bar Graph Showing CITR and Total Tax Revenue



In the above bar diagram various year are in X-axis and total tax revenue is shown in y-axis.

Fig. 4.3.3.2 (b)

Trend Line Showing CITR and Total Tax Revenue



The above trend line shows the increasing of tax revenue and CITR. The total tax revenue seems to be increasing forever during the study period. But CITR was minimum at 2002/03. The trend line of private and public sector fluctuated among all.

4.3.3.3 Contribution of Corporate Income Tax on Direct Tax Revenue.

Direct tax comprises of income tax, house and land registration tax. Land and revenue which is shown in details in master table appendix. From that master table following data has been presented 8 years direct tax revenue, CITR and its contribution in direct tax revenue.

Table. No. 4.3.3.3
Contribution of CITR on Direct Tax Revenue.
(Rs. In millions)

Fiscal Year	Direct Tax	Total %	Corporate income tax				Total CITR	% CITR
			Public Sector	%	Private sector	%		
1998/99	7516.1	100	1526.5	20.31	1155	15.37	2681.5	35.68
1999/00	8951.5	100	2198.8	24.56	1339.5	14.96	3538.3	39.52
2000/01	10159.4	100	2928	28.82	1924.3	18.94	4852.3	47.76
2001/02	10597.5	100	1769.3	16.70	1412	13.32	3181.3	30.02
2002/03	10105.8	100	1251	12.38	1236.3	12.23	2487.3	24.61
2003/04	11912.6	100	2056.6	17.26	1531.3	12.85	3587	30.11
2004/05	18071.8	100	1332.4	10.19	2467.8	18.88	3800.2	29.07
2005/06	13968.1	100	195.7	1.40	3404.3	24.37	3600	25.77
Average	10480.25	100	1657.29	16.45	1808.81	16.37	3565.99	32.82

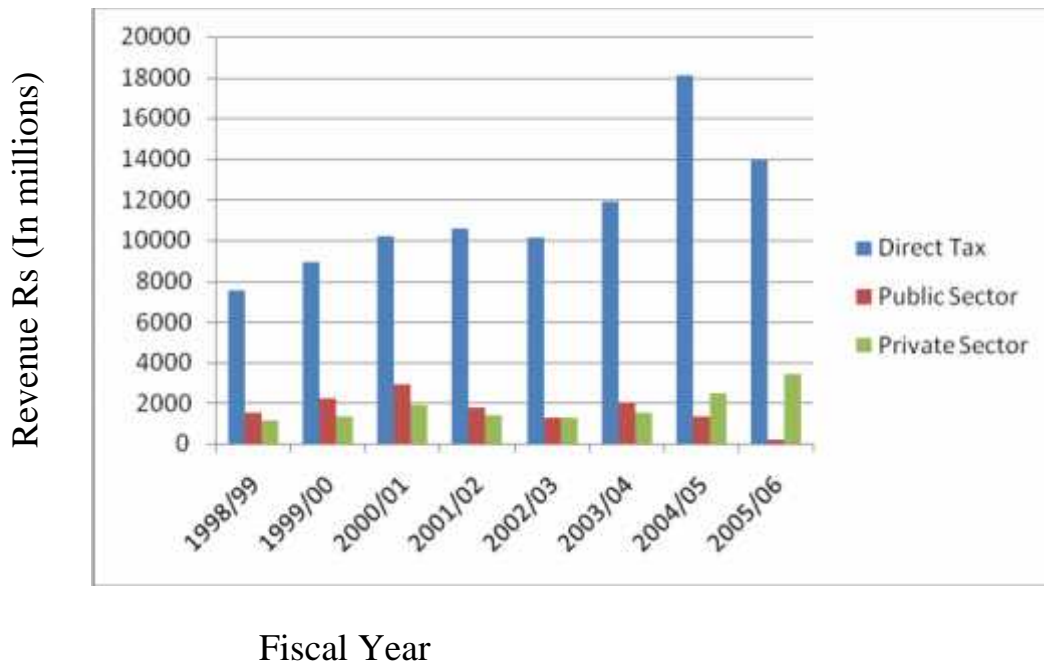
Source: Economy Survey

From the above table we can see that the contribution of CITR to direct Tax revenue was fluctuated between 24% to 48% during the study period its contribution% was 35.68 amount Rs 2618.5 million in FY 1998/99, which increased to reached 47.76% amount Rs 4852.3 million in FY 2000/01 but later to decreased to 24.6% amounting 2487.3 in FY 2002/03 and reached 25.77% amounting Rs 3600 million in FY 2005/06. It was possible due to the business friendly environment and seizes fire in the country. Unfortunately that

situation did not long last the CITR s contribution to direct tax revenue was increasing trend. This table has also shown the structure composition of corporate tax. Nearly, half portion of CITR was covered by public and private sector it was fluctuated in during the study period private sector have improved their position the public sector have decreased their position.

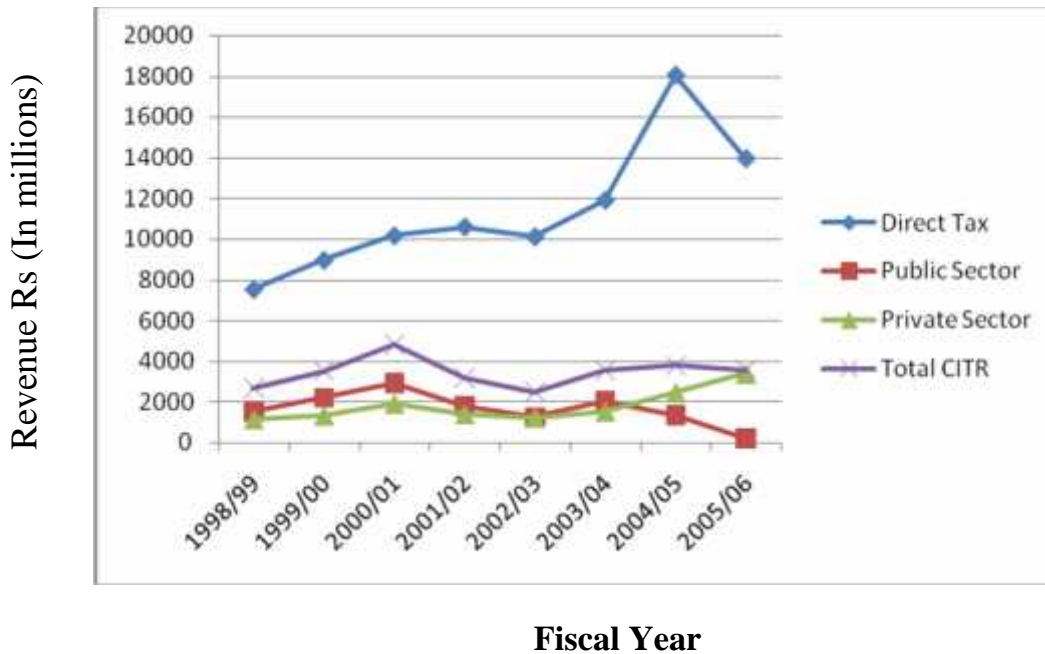
The contribution of CITR to direct tax revenue can be shown in bar diagram and trend line as follow.

Fig 4.3.3(a)
Bar Graph Showing CITR and Direct Tax Revenue.



In the above bar graph x-axis shows the different FY from 1998/99 to 2005/06 and y-axis shows the direct tax revenue. It shows the total direct tax revenue was increased continuously during the study period except the FY 2002/03.

Fig. 4.3.3.3 (b)
Trend Line Showing CITR and Direct Tax Revenue.



The above trend line shows that the direct tax revenue has been increasing. Contribution of CITR to direct tax revenue was fluctuated trend. The trend line of private sector also fluctuated and lastly up to 2002/03 then increasing trend line of Public sector up to increasing and in 2002/03 then decreasing in FY 2005/06.

4.3.3.4 Contribution of Corporate Income tax Revenue on Income Tax revenue.

Income tax revenue is compares of corporate income tax, individual income tax, interest tax and house and land tax. The size of income tax revenue largely depends upon the size of corporate sector. Higher the size of corporate sector, higher will be the CITR and total income tax revenue and vice versa so, CITR in Nepal has played a vital role in income tax revenue.

Table No. 4.3.3.4 Contribution of CITR on Income Tax Revenue**(Rs in millions)**

Fiscal Year	Income Tax	Total %	Corporate income tax				Total CITD	%
			Public Sector	%	Private sector	%		
1998/99	6170.3	100	1526.5	24.74	1155	18.72	2681.5	43.46
1999/00	7420.6	100	2198.8	29.63	1339.5	18.05	3538.3	47.68
2000/01	9114	100	2928	32.13	1924.3	21.11	4852.3	53.24
2001/02	8903.7	100	1769.3	19.87	1412	15.86	3181.3	35.73
2002/03	8131.9	100	1251	15.38	1236.3	15.2	2487.3	30.58
2003/04	9514.7	100	2056.6	21.61	1531.3	16.09	3587	37.7
2004/05	10466.1	100	1332.4	12.73	2467.8	36.31	3800.2	49.04
2005/06	10939.4	100	195.7	1.79	3404.3	31.12	3600	32.91
Average	8832.59	100	1657.29	157.88	1808.81	21.56	3565.99	41.29

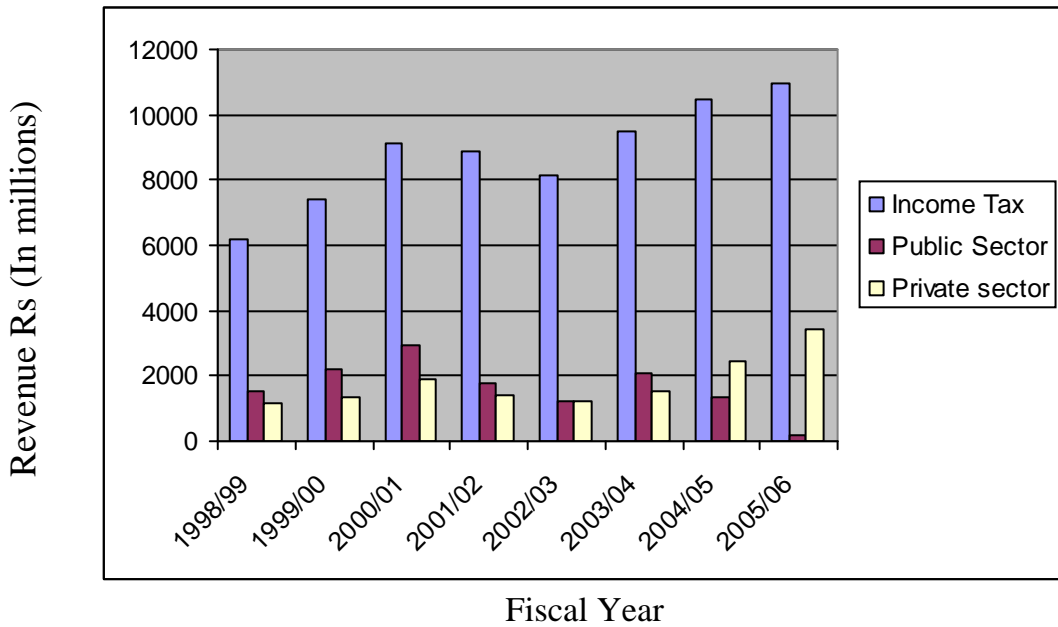
Source: Economic Survey 2006/07

Above table reflects that the contribution of CITR to income tax revenue seems to be in decreasing trend during the study period. It was 43.46% amounting Rs 268.5 million in FY 1998/99. But its contribution was started to fluctuate and reached to 30.58% amounting Rs 2487.3 million in FY 2002/03 and contribution of CITR to income tax revenue was maximum on 53.24% amounting 4852.3 in FY 2000/01.

The structural composition of corporate sector seemed to be changed during the study period. In FY 1998/99, 24.74, 18.72% contribution was made by public and private sector respectively, which 1.79, 31.12% in the year 2005/06. It seems that though tax collection from private sector was increasing in 3404.3 in FY 2005/06 and public sector was decreasing Rs 195.7 in FY 2005/06. The CITR has been contributing 41.29% on average to the income tax revenue.

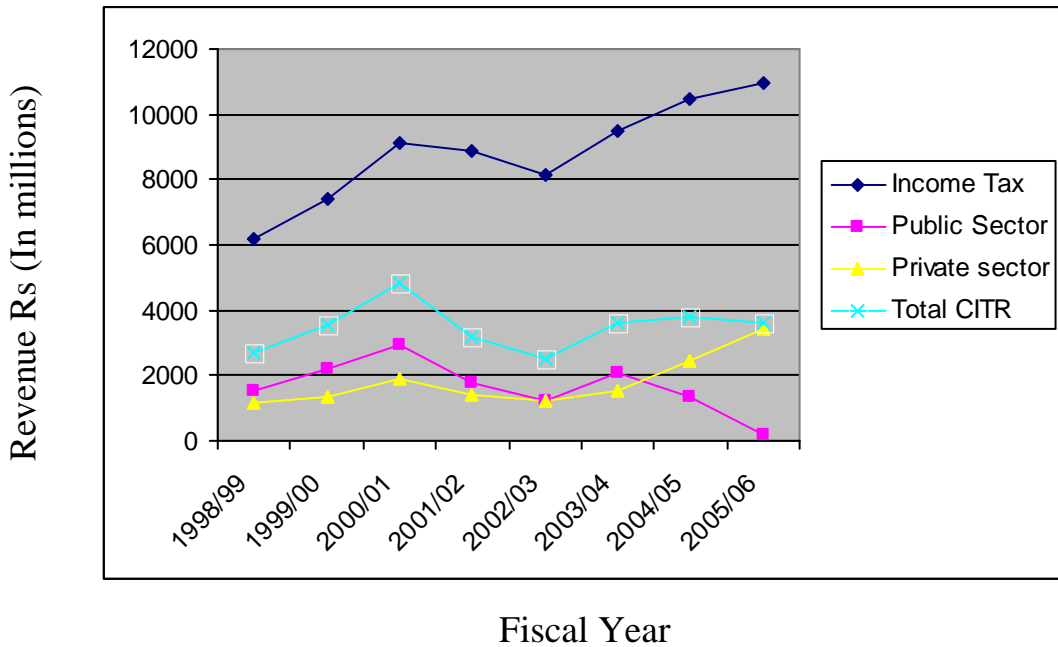
The CITR and Income tax Revenue position has been shown in the following bar diagram and chart

Fig. 4.3.3.4 (a)
Bar Graph of CITR and Income Tax Revenue.



In the above bar diagram, different years are shown in x-axis and total income Tax Revenue is shown in y-axis. In which, we can see the maximum contribution of CITR to tax Revenue in 2000/01, then it share continuously decreased up to the FY 2002/03.

Fig. 4.3.3.4 (b)
Trend line showing Tax Revenue and CITR



Above trend line shows that the income tax revenue was increasing up to 2005/06. The relationship between CITR and Income tax revenue from the FY 1998/99 to 2005/06 was 0.86 which indicates the highly positive correlation out of the tax contribution.

4.3.3.5 Structural Composition of Corporate Income Tax.

The corporate income tax structure comprises of public and private sector corporate taxable income calculated by adding all the allowable expenses the corporate tax base is explained and presented in the preceding sub chapter. After the enactment of income tax act, 2058, the books of account of corporate sector have been kept a little bit differently from the FY 2002/03, the total corporate sector income tax is computed by adding public and private income tax including individual and sole trading from and income from other institutions too. The following table has been drawn to show the structural composition of corporate income tax from the FY 1998/99 to 2005/06.

Table No. 4.3.3.5
Structural Composition of Corporate Income Tax
Rs.(In millions)

Fiscal Year	CITR	Total %	Corporate income tax			
			Public Sector	%	Private sector	%
1998/99	2681.5	100	1526.5	56.99	1155	43.07
1999/00	3538.3	100	2198.8	62.14	1339.5	37.86
2000/01	4852.3	100	2928	60.34	1924.3	39.66
2001/02	3181.3	100	1769.3	55.62	1412	44.38
2002/03	2487.3	100	1251	50.3	1236.3	49.7
2003/04	3587.9	100	2056.6	57.32	1531.3	42.68
2004/05	3800.2	100	1332.4	35.06	2467.8	64.94
2005/06	3600	100	195.7	5.44	3404.3	94.56
Average	3464.1	100	1657.29	47.91	1808.81	52.11

Source: Economic Survey 2006/07

The above structural composition of corporate tax shows that major portion was covered by public sector.

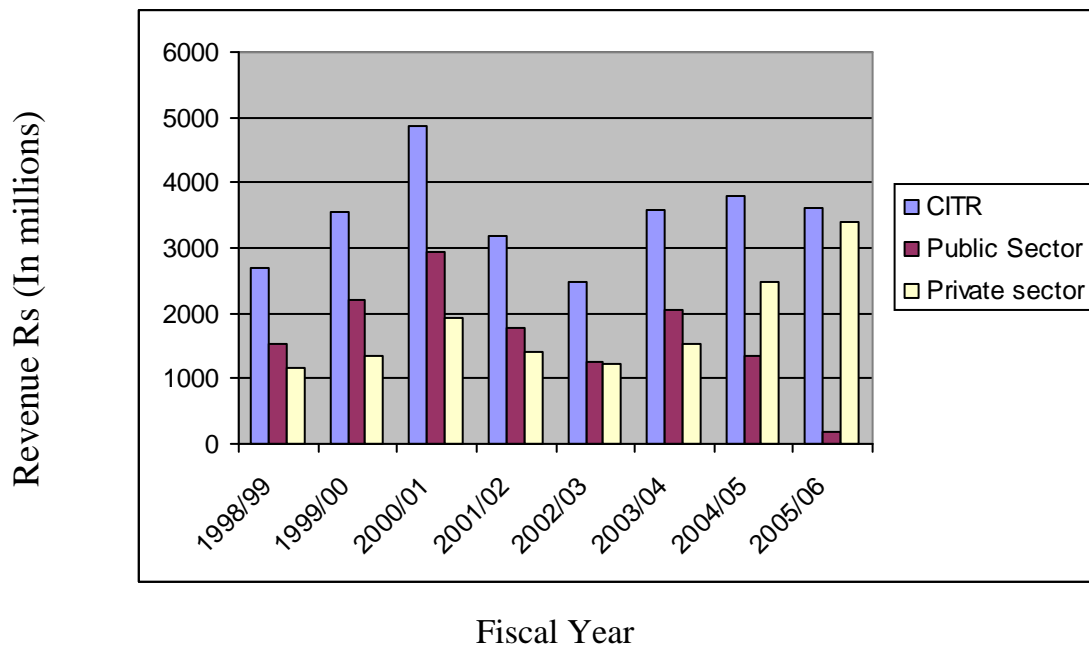
It was 56.93%. In the FY 1998/99 while the private sector contributed 43.07% in FY 1998/99.

The share of private sector decreased a 37.86% in FY 1999/00 and reached to increase 98.56% in FY 2005/06. in public sector is decreasing trend and reached 5.44% in FY 2005/06 and the CITR Rs 2681.5 in FY 1998/99 it was fluctuated to reached to Rs 3600 million in FY 2005/06.

Total CITR is increasing trend the average contribution of private and public sector was 52.11 and 47.89 %.

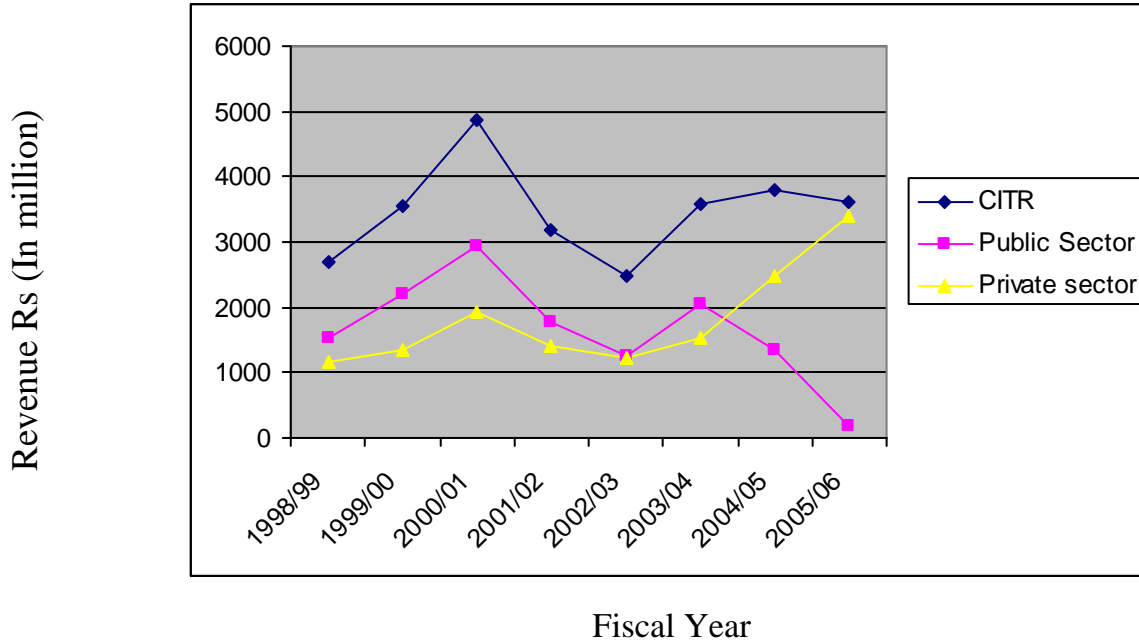
The structural composition of CITR can be presented in bar graph and chart as follows.

Fig. 4.3.3.5 (a)
Bar Graph Showing CITR and its Composition
(Rs in millions)



In the above bar diagram, different years are shown in x-axis and CITR shown in y-axis.

Fig. 4.3.3.5(b)
Trend Line Showing Components of CITR



The above trend line represents the CITR, public sector and private sector respectively. It shows that the CITR was mostly fluctuated, during the study period.

The relationship between CITR and public sector, CITR and Private sector were 0.94 and 0.85 respect during the study period. Out of the tax contribution, public sector and private sector covers mostly and remaining was covered by other taxes.

4.4 Empirical Investigation

An empirical investigation has been conducted in order to find out various aspects of income tax imposition in Nepal. This chapter analyses information collected from primary sources i.e., through questionnaire. The questionnaire was distributed to the tax administrator's tax experts and tax payers. The responses received from various respondents have been arranged tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The respondents were requested to response on questionnaire by two ways:-

They were requested to response simply by yes or no response.

They could response by selecting one or more options.

They could response by ranking the choices starting from 1 to most important as per number of choice.

Respondents had also option to put their views by writing wherever necessary.

Table No. 4.4
Denominations of Respondents Code Used

S.N	Denominations of Respondents	Sample size	Code Used
1.	Tax administers	25	A
2.	Tax Exports	25	B
3.	Tax payers	25	C
	Total	75	

Source: Opinion Survey

4.4.1 Attitude Towards Tax Education

To know the responses attitude towards tax education, a question was asked “Do you think that people are well inform about the tax system in Nepal”? The responses have been tabulated below:

Table no 4.4.1

People's knowledge towards Tax System

Responses	Yes		No		Total	
	No.	%	No	%	No	%
A.	-	-	23	100	25	100
B.	-	-	100	100	25	100
C	1	1.33	20		25	100
Total	1	1.33	75	98.67	75	100

Source: Opinion Survey

From the above table it has been clear that 98.67% of the respondents were against the question “Do you think that people are well informed about the tax system in Nepal?” and 1.33% respondent it can be concluded that tax education is most necessary in Nepal to increase the tax consciousness of tax payer.

4.4.2 Specific Objective of Income Tax in Nepal:

In order to know the specific objectives of income tax in Nepal, respondents were requested to rank their responsible. The question was asked” what should be the specific objective of income tax in Nepal?” Table 4.4.2 gives the breakdown of responses:

Table No.4.4.2

Opinion towards Objectives of Income Tax

S.N	Objective Of IT	Group			Total Points	Percent	Rank
		A	B	C			
1.	To enhance the revenue of Government	72	70	80	222	24.67	1
2.	To meet the government expenditure	65	58	60	183	20.33	4
3.	To narrow the income Gap between rich & poor	67	67	61	196	21.78	3
4.	To achieve the goals of national development and equal economic distribution	72	70	69	211	23.44	2
5.	To check inflation	30	27	31	88	9.78	5
Total					900	100	

Source: Opinion Survey

There was 100% response received from the respondents. Most of the respondents are supporting the objectives of the enhance the revenue of the government 24.67% are in favour of the objective of to enhance the revenue of the government. 23.44% of them choose the objective of national development and equal economic distribution, another 21.78% choose the objective of to narrow the income gap between rich and poor, 20.33% are of them choose to meet the government expenditure and 9.78% of them gave to check inflation.(See table No.4.4.2 for details).

Specific objective of income tax are ranked below in order to preference.

1. To enhance the revenue of the government
2. To achieve the goals of nation development and equal economic distribution.
3. To narrow the income gap between rich and poor.
4. To meet the income government expenditure.

5. To check the inflation.

4.4.3 Attitude towards Income tax system in Nepal.

To know whether the income tax system of Nepal is sound and efficient or not a question asked. “Are you satisfied with the existing income tax system of Nepal?”

The responses received from the various respondents are tabulated as Follows:

Table No.4.4.3 (a)
Satisfaction towards Existing Income Tax System.

Respondents	Yes		NO		Total	
	No	%	No	%	No	%
A	2	8	23	92	25	100
B	-	-	25	100	25	100
C	2	8	23	92	25	100
Total	4	5.33	71	94.67	75	100

Source: Opinion Survey

From the above table, it has been clear that most of the respondents i.e. 94.67% of respondents are not satisfy with the existing income tax system of Nepal.

In order to know, the cause of not satisfy with the existing income tax system of Nepal the next question was asked “If no, what are the major problems of the income tax system of Nepal?” The respondents were requested to rank their answer from 1 to 11 table 4.4.3 (b) gives a breakdown of responses.

Table No.4.4.3 (b)
Major Problems of Income Tax System

S.N	Major Problems	Group			Total Points	Percent	Rank
		A	B	C			
1.	In adequate economy Policy	47	65	86	198	6.36	9
2.	Inefficient income tax administrative	129	191	172	492	15.81	1
3.	Complicated income tax act, rules & regulation	102	109	174	325	10.44	4
4.	In appropriate rates exemption	41	52	47	140	4.5	11
5.	Difficulty in maintain account for tax purpose	17	58	73	148	4.76	10
6.	Lack of education to tax payers	91	87	71	249	8	8
7.	Lack of awareness to tax payers	147	109	71	327	10.51	3
8.	Lack of training & sufficient incentives to employees	99	94	106	299	9.61	5
9.	Lack of expert in tax management	58	121	116	295	9.48	6
10.	Practice of tax evasion	157	97	121	375	12.05	2
11.	Illegal business actives	94	68	102	269	8.64	7
Total					3112		

Source: Opinion Survey

The major problems of income tax system of Nepal were ranked in order of the preference of the respondents as follows.

1. The efficient income tax administrative
2. Practice of tax evasion
3. Practice of awareness to tax payer.
4. Complicated income tax act, rules and regulation.

5. Lack of training and sufficient incentives to employees.
6. Lack of exports in tax management
7. Illegal business activities.
8. Lack of education to tax payers.
9. Inadequate economic policy.
10. Difficulty in maintaining account for tax purpose.
11. In appropriate rate and exemption.

It can be concluded from the above results that in the opinion of respondents, the income tax system of Nepal is not sound and efficient, basically due to inefficient income tax administration, practice of tax evasion and lack of awareness to tax payers.

4.4.4 Appropriate Method while Assessing the Income tax in Nepal.

Method of income tax assessment is very important in the assessment of income tax sound and appropriate assessment procedure is essential for collection of the large amount in the form of income tax. It is very important in managing the income tax because the amount of income tax is realized through the assessment finding out an appropriate method of income tax assessment a question put toward to the respondents asking “what method is more appropriate in Nepal while assessing the income tax?” The responses received are tabulated below:

Table No.4.4.4
Appropriate method while Assessing the Income tax in Nepal

S.N	Methods	Group			Total	
		A	B	C	No	%
1.	Assessment on the basis of account submitted	4	6	4	14	18.67
2.	Self assessment	18	123	15	45	60%
3.	Assessment on the best judgment	2	4	5	11	14.67
4.	Assessment by the committee	2	3	-	5	6.66
Total					75	

Source: Opinion Survey

From opinion survey, it has been clear that self- assessment method is more appropriate for Nepal while assessing income tax 60% of respondents have positive opinion about self-assessment followed by 18.67% of respondents about account basis assessment.

4.4.5. Income tax- Evasion in Nepal.

In order to find out whether the income tax evasion is practiced in Nepal or not, the question was asked” In your opinion is there a major problem of tax evasion in Nepal? The responses of respondents were tabulated below.

Table No. 4.4.5(a)

Income Tax Evasion in Nepal

S.N	Response	Group			Total	Percent
		A	B	C		
1.	Yes	20	23	21	64	85.33
2.	No	5	2	4	11	14.67
Total		25	25	25	75	100

Source: Opinion Survey.

The above table reveals, that 85.33 respondents supported tax evasion as a major problem of income tax evasion in Nepal. Rest 14.67 % was again above view. It can be noted that almost all the person with high denominates were in favor of the question.

There may be much response for wide spread tax evasion. In order to know the main reason for tax evasion, the respondents were provide eight reasons and were provide eight reasons and were requested to rank them. The response has received are tabulated as below.

Table No.4.4.5 (b)
Factors Responsible for Tax Evasion

S.N	Response	Group			Total Points	Percent	Rank
		A	B	C			
1.	Defective tax administration	95	106	93	294	18.4	1
2.	Inefficient income tax Policy	60	59	68	187	11.7	5
3.	In appropriate Income tax rate	33	42	46	121	7.75	8
4.	Loopholes' in income tax act	37	45	53	135	8.45	7
5.	Unwillingness of Tax payers to Pay tax	87	104	79	270	16.9	2
6.	Lack of Unconscious in tax payers	65	65	63	193	12.08	4
7.	Corruption in tax authority	72	82	83	227	14.21	3
8.	Lack of political commitment	47	67	57	171	10.70	6
	Total				1598	100	

The major reasons for evasion of income tax from the above table according to the respondent's performance are as follows

1. Defective tax administration.
2. Unwillingness of tax authority.
3. Corruption in tax payers to pay tax.
4. Lack of unconscious in tax payers.
5. In appropriate income tax policy.
6. Lack of political commitment.
7. Loopholes in income tax act.
8. In appropriate income tax act.

Thus it can be concluding that the main reasons for tax evasion are due to defective tax administration and other after that.

The other factors started by a respondents are wide spread practice of illegal business inadequate auditing and investigation and poor develop of corporate system.

4.4.6 Attitude toward provisions of fees, fines and penalties.

Income tax system of Nepal has the provisions of fees, fines and penalties for the regulation of low to find out the reasonability of these provisions, a question was asked, “Are penalties under income tax system is reasonable?” the response are tabulated as below:

Table No.4.4.6 (a)

Attitude towards Reasonability of Existing Provisions of Fees, Fines and Penalties

Responses	Yes		NO		Total	
	No	%	No	%	No	%
Respondents						
A	19	76	6	24	25	100
B	20	80	5	20	25	100
C	14	56	11	44	25	100
Total	53	70.67	22	29.33	75	100

Source: Opinion Survey

Above table shows that 70.67% of respondents have expressed the provisions of fines and penalties are reasonable and 30% respondents have not taken the provision of fees, fines and penalties as reasonable.

The respondents, who were against provisions of fees, fines and penalties a question was asked “How can it be made reasonable?” the responses of respondents are as follows:

Table No. 4.4.6(b)

Measures to make the Provision of Fees, Fines and Penalties Responsible

S.N	Measures	Tax Adm.	Tax expert	Tax Payer	Total	Percent
1.	By Increasing	5	10	2	17	36.17
2.	By Decreasing	-	10	20	30	63.83
Total					47	100

Source: Opinion Survey

It is clear from the above table 36.17% of respondents who do not agree the provisions of fees fines and penalties as reasonable felt that it should be increased and 63.83% have felt it should be decreased.

4.4.7 Effectiveness of Income Tax Administration in Nepal

In order to find out the effectiveness of income tax administration, a question was asked “what do you feel about the current income tax administration of Nepal? The respondents who do you agree on the effectiveness, they have got alternative to choose about the position of income tax administration. The responses received from respondents are as follows:

Table No. 4.4.7(a)

Effectiveness of Income Tax Administration

S.N	Responses	Respondents			Total	Percentage
		A	B	C		
1	Efficient	15	3	5	23	30.67
2	Inefficient	1	15	16	100	42.67
3	Satisfactory	9	7	4	20	22.66
Total		25	25	25	75	100

Source: Opinion Survey

From above table, it is clear that income tax administration is not efficient to collect tax and has got majority percentage from the respondent's i.e.42.67% and they ranked some causes given in the questionnaire as tabulated below.

Table No. 4.4.7 (b)

Cause of Inefficient of Nepalese income Tax Administration

S.N	Response	Group			Total Points	Percent	Rank
		A	B	C			
1.	Lack of trained and Competent tax person	7	76	86	169	17.14	1
2.	Complicated tax laws	8	77	76	161	16.33	2
3.	Lack of proper communication	10	42	63	115	11.66	5
4.	Lack of proper direction	3	46	49	98	9.94	6
5.	Lack of voluntary compliance by tax payers	9	67	55	131	13.29	4
6.	Unnecessary outside pressure	4	40	41	85	8.62	8
7.	Undue delay in malty assessment	6	63	64	134	13.59	3
8.	Lack of co-ordination of the tax department with other department	5	39	49	93	9.43	7
	Total				1598	100	

Source: Opinion Survey

The causes of ineffectiveness of Nepalese income tax administration ranked in order of preference of respondents are as follows:

1. Lack of trained and competent tax personal
2. Complicated tax laws
3. Undue delay in making assessments

4. Lack of voluntary compliance by tax payers
5. Lack of proper communication
6. Lack of proper direction.
7. Lack of co-ordination of the tax department with other departments
8. Unnecessary outside Pressure.

It can be conclude that the lack of trained and competent tax personnel, complicated tax laws, undue delay in making assessments are the most important causes of in effectiveness of Nepalese tax administration.

4.4.8 Most Important factors for Effectiveness of Income Tax in Nepal.

In order to know the most important factor for effectiveness of income tax in Nepal respondents were requested to rank their responses on given choices. Te question was “what is the most important factor for effectiveness of income tax in Nepal?” Table 4.4.8 gives a breakdown of responses:

Table No. 4.4.8.Important factors for Effectiveness of Income Tax in Nepal

S.N	Factors	Group			Total Points	Percent	Rank
		A	B	C			
1.	Rank tax officers	56	56	56	162	27	1
2.	Honest tax payers	61	43	40	144	24	3
3.	Clear act, rules and regular	52	46	60	158	26.33	2
4	Effective income tax administration	32	54	50	136	22.67	4
	Total				600	100	

Source: Opinion Survey

The important factor for effectiveness of income tax were ranked in order of the preference of the respondents were as follows:

(See table 4.4.8 for details)

1. Honest tax officers
2. Clear act, rules and regular
3. Honest tax payers
4. Effective income tax administration

It can be concluded that honest factor for the effectiveness of income tax in Nepal.

4.4.9 Suggestions for Achieve Effectiveness of income tax in Nepal.

To know the other important factors for effectiveness of income tax a question was asked “Do you have any other suggestion for achieving effectiveness of income taxes in Nepal?” The responses are as follows:

1. Government economic policy is the main cause for unsatisfactory of effectiveness of income tax in Nepal. So, it should be corrected in pursued of effectiveness of income tax.
2. Effective tax management and training and seminar to the tax personnel.
3. Development of check and balance system.

4.5 Major Findings of The Study

On the basis of data presentation and analysis in above mention sub chapter some important finding of the study are summarized below:

- 1)The study shows that the contribution of tax revenue was 79.45 and that of non tax was 20.55 in FY 2005/06.Its shows that attention has been major sources of government revenue .But the contribution of total revenue was not more formulated trend .Its contribution was 77.14% in FY 1998/99.
- 2) Nepalese tax revenue is composed of both direct and indirect tax revenue .There is dominant role of indirect tax revenue in Nepalese tax revenue .The contribution of direct tax and indirect tax to total tax revenue was 26.32 and 75.68% respectively in

2005/06. It reveals that tax structure of Nepal is not justifiable on equity ground and progressiveness because indirect tax is considered regressive in nature.

- 3) The contribution of custom duty, excise duty, vat on indirect tax were 44.82, 13.91, 41.27 respectively in FY 1998/99 and contribution each taxes were reached 35.3, 14.97 and 49.73% respectively in FY 2005/06. It shows that custom duties were in decreased trend and excise duty and vat were in increasing trend.
- 4) The contribution of income tax, land tax, house and land registration tax, urban house and land rent to direct tax revenue in FY 1998/99 were 82.09, 0.02, 13.33, 1.64 and 2.92 respectively which reached to 78.32%, 0%, 15.6% and 6.07% respectively in FY 2005/06. In the composition of direct tax, income tax was the giant one which contribution seems to be increasing every year. The percentage contribution of house and land registration was in decreasing trend and the other remaining taxes portion came to nil in the preceding years. Income tax has occupied third position at present on the basis of mean contribution to GDP. Its contribution to government revenue is in increasing trend so the income tax in future will also contribute very well.
- 5) Income tax has been considered as suitable sources for mobilization internal resources. It can be used as a positive instrument to boost up government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.
- 6) The total income revenue/GDP ratio in FY 1998/99 was 2.2% in FY 1998/99 which fluctuated to reach 1.81% in FY 2005/06 it was decreasing trend this ratio is not satisfactory.
- 7) The income tax to total revenue ratio in FY 1998/99 was 19.64 which fluctuated to reach 15.13% it was decreasing trend.
- 8) Income tax is composed of corporate income tax, individual income tax, house and land rent tax and vehicle tax. All those taxes contribution were in increasing trend except house and land.

- 9) The resource gap has been fluctuated. It was Rs 22328 million in FY1998/99 and which was increased to Rs30941.2 million in FY 2000/01 and average % of resource gap to Govt. expenditure was 34.79.
- 10) On an average contribution of total Govt. revenue to total Govt. expenditure was 65.21% during the study period. Government revenue was 69.69% of maximum level in FY 2003/04 and 61.24% in minimum level in FY 2000/00. Similarly, the contribution made by foreign at comprising both grants and loan was 22.27% on an average. This indicates the indebtedness of the country.
- 11) The contribution made by CITR to total expenditure was 22.27 its total expenditure was 22.17 of maximum in FY 1998/99 and 17.96% of minimum in FY 2001/02. The drastic reduction in contribution % of corporate sector was mainly due to the unfriendly business environment created by unstable political and economic situation of the country.
- 12) The corporate tax rates have been revised for several times in the history of corporate. Now a days, private and public companies are taxed at a flat rate of 20.25 and 30 Percent respectively which are the lowest rate in the history of more than one decade.
- 13) Nepal has been practicing book profit or corporate profit as tax base for the corporate taxation ITA, 2058 has clarify about the format for calculation different head of income.
- 14) The contribution of CITR to total revenue was 9.92 of maximum in FY 2000/01 and 4.42 of minimum in FY 2002/03. The average contribution was 6.53 during the study period. This contribution is important but not satisfactory for developing country like Nepal.
- 15) CITR portion in income tax revenue was 53.24 of maximum in FY 1999/00 which gradually deceased to 30.58% of lowest in FY 2002/03 and it was 32.91% in FY 2005/06 on average, CITR had contributed 41.29% to income tax revenue.

This shows that CITR occupied major portion in income tax. But the fluctuation in CITR collection and its percentage contribution was due to the effect of unfriendly political

and economic environment and lack of developing competently by public and private sector.

16) In the structural composition of CITR government sector was dominated the sector. The average portion covered by public and private sector was 74.89 and 52.11% respectively.

On the basic of empirical analytical analysis some major finding can be drawn which summarized as given below.

-) Tax education is most necessary in Nepal to increase the tax consciousness of tax payers.
-) The major objective of the income tax in Nepal is to enhance the revenue of the government to achieve the goals of National Development and equal economic distribution and narrow the gap between rich and poor. Income tax system of Nepal is not sound and efficient basically due to inefficient tax evasion and lack of awareness of tax payers.
-) Self-assessment method is more appropriate for Nepal while assessing income tax.
-) Income tax evasion is the major problem of Nepal for income tax generation.
-) Main reason for tax evasion is due to defective tax administration, UN willingness of tax payers to pay tax and corruption in tax authority.
-) Provision of fines and penalties of Nepal are reasonable for which 70.67% of respondents have supported and remaining 29.33% were in against.
-) Income tax administration is not efficient to collect tax.
-) Lack of trend and competent tax personal, complicated tax laws and undue delay in making assessment are the most important cause of ineffectiveness of Nepalese tax administration.
-) Honest tax officer and clear act, rules and regulations are the most important tractors for the effectiveness of income tax in Nepal.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In developing countries like Nepal lack of sufficient financial resources is the main constraint for national economic development. A lot of fund is required to meet the additional financial requirements for the development activities of the country Nepal has been suffering from capital shortage to accelerate the economic growth the expenditure of Nepalese government is increasing year by year. To meet the additional capital requirements Nepalese government has been using external resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit and resource gap of Nepal have been fluctuated.

To solve this problem, income tax is the most important for internal revenue in which corporate taxation occupies the major portion. Regarding this fact, this study attempts to analyze the importance and contribution of corporate sector to the Nepalese government revenue. After identifying introduction about it, review of literature has been observed to address core elements like income tax and its development corporate tax and its development in Nepal, corporate tax base, tax base tax incentives etc.

Descriptive cum historical research design has been used to search its objectives whole area relating to government revenue is set for the research population and corporate income tax is taken as sample size. Difference interactions method and strategy have been used to collect secondary data as well as primary data were also collected by using survey method. Analytical tools such as table percentage, bar, graph, trend lines, time series, average and correlation are used for research methodology.

As the corporate income tax has been separated from individual income tax since 1998/99. Corporate income tax collection has been increasing continuously few years. In the government revenue, tax revenue has contributed more than 75% and within the tax structure, indirect taxes have contributed more than 75%. But all the developing countries like Nepal have equal importance of direct tax which is 78.32% in FY 2005/06 and within income tax, corporate income tax contributed 41.29% on an average. This figure shows the importance and contribution of corporate sector to government revenue in Nepal like developing countries.

The average contribution of public and private sector were found 47.89% and 52.11% respectively during the study period. All the relationship between CITR to total tax revenue, CITR and income tax revenue, CITR and total revenue were found to be positively correlated. As per the projection of data, tax collection from various tax heads will increase. But the contribution % of corporate income tax to different head will slightly decrease.

During the study period the resource gap has been fluctuated but more increasing trend. In FY 1998/99 the overall resource gap was Rs 6139 million, which was increased to Rs 16564.4 million in FY 2005/06 and average resource gap Rs 10601.83 million in the study period. The domestic resource gap pattern of Nepal was found on an average 34.79% to total expenditure and the share of CITR to total expenditure was 4.23% on average.

In order to know the problems of existing income tax act and to give necessary suggestions on it a set of questionnaire were distributed among tax experts and tax payers. On the basis of opinion survey empirical investigation has found some weakness but also point out some satisfactory aspect of the existing income tax act.

According to the investigation income tax is a suitable means of raising government revenue as well as the tax education is necessary in Nepal for which 98.67% of respondents have supported respectively. It is found that inefficient tax administrator, tax evasion and inappropriate objectives of income tax were the main cause in proper

collection of income tax in Nepal. Self-assessment method of assessing income tax is more appropriate in Nepal. 70.67% of them was in support and remaining 29.33% were in against about reasonability of fees, fines and penalties. Some of respondents made advice like effective tax management, training and seminar to the tax personnel and development of checks and balance system can lead income tax towards its efficiency.

5.2 Conclusion.

The sound economy of a nation largely depends on the well developed corporate sector. Development of corporate sector is possible through corporation friendly rule, law and regulation on one hand and the process of industrialization of the other hand. It is also important to develop the corporate culture in Nepalese's corporate sector.

In the context of Nepal, it has been adopting the mixed and dual economy in the last many decades. The economy has been liberalized after the restoration of democracy in 1990. Numbers of public and government and government enterprises has been privatized in this period and some of them have been either liquidated or merged likewise, Nepal has entered in WTO mainstream of trade in 23rd April 2004, which has given the potentiality to increase foreign direct investment and access of Nepal to international market but in reality it has strongly challenged the Nepalese small entrepreneurs and the corporate house too in the side of quality and price and it has also increased the possibility of Nepal being as a dumping side of giant multinational companies so, Nepalese corporate sector has been facing serious challenges, the main reasons are significant expansion of regular government activities, increasing cost of maintenance, increasing debt servicing charge etc.

Resource gap in Nepal has been morally increasing the internal revenue is sometime insufficient even to meet regular expenditure and most to the development activities depend on foreign aid where Nepal has been compelled to harmonize the donor. The major problems of domestic resource mobilization are poor utilization of the natural resource base, small and stagnant industrial sector, poor performance of public sector enterprises poor economic growth and inadequate tax effort etc. so, in this context,

revenue generation from internal sources are very important in which income tax is one of the major sources.

Corporate sector is in initial stage of development in Nepal which is small and stagnant in nature comparing to other developing country. The performance of corporate sector, especially the industry is very poor their number, profitability, investment in fixed assets, share of market transactions are all in weak position nevertheless, the importance of contribution of corporate income tax to government revenue is equally important to Nepal like developing country.

Corporate income tax is based on socio-economic infrastructure and environment. In the corporate income tax structure the debate is going on use of appropriate type of tax incentives, treatment of inflation, method and rate of depreciation. The present provision of tax incentives are found insufficient in the changing global economic scenario especially for revival of sick industrial unit the statutory corporate tax rates are found frequently changed during the study period.

The contribution of CITR to government revenue, total tax revenue total direct tax revenue total direct tax revenue during the study period seems to be increasing. But it was found in decreasing trend since 2002/03 which may serious setback for our nation in generating revenue from internal sources and sooth of economy.

The resource gap seems to be increasing every year. CITR has been contributing on an average 4.23% to total government expenditure which looks small in percentage but it is important to agro-based economy country like Nepal.

The new income tax Act, 2058 has giving the format for method of taxing corporation. But there are still controversies, methods and rates using in depreciation calculation for assets taken in lease and installment payment basis.

Unclear vision of government to corporate sector, frequent changes of rule and regulations and unstable political economic environment of Nepal have sharply damaged the corporate sector presently income tax revenue is collection in accordance to the

income tax Act, 2058. Due to the various problems related to income tax, revenue collection from income tax is low in Nepal from different sector. It is blamed that Nepalese income tax law is in appropriate and the administrations not efficient but if we analyze the data relating to it then we can find out that it is not so bad.

However income tax laws administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad some provisions would have to be mentioned clearly strong commitment fair and uniform imposition is to be stored and revitalized. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side, tax education packages are to be made and imitated hence, tax administration and tax compliance could be improved.

5.3 Recommendation

On the basis of this study the following recommendation are made in order to increase the contribution of corporate income tax in revenue collection of Nepal and for increase in efficiency of existing income tax act.

1. The target of government to increase tax collection from VAT; income tax an excise duty within three years from FY 2059/60 to 4%, 3% and 1% of GDP respectively are in the positive direction of progress. But unless and until the political and economic scenario is changed, it will be quite hard to achieve the target. So, the government should encourage the entrepreneurs to join in VAT, taking PAN and should systematic the custom and boarder etc.
2. As a government has lunched the programs as ASYCUDA, consumers Reforms and Modernization Action plan 2060 and self-assessment of tax by income tax Act, 2058 which have position impact on revenue collection so, these programs should be continued and further simplified to strengthen effectiveness and efficiency in tax collection and avoiding tax evasion.
3. Structural composition of corporate tax was found to be dominated by government sector in spite of increase in tax collection from private sector, its contribution

percent to CITER was fluctuated. So, the performance of private sector is not satisfactory in overall. Government should do proper homework before privatizing the enterprises and company and a research should be undertaken why the performance of private sector is poor ever the government is giving more emphasis to it.

4. Government should make a clear cut distinction between the role of public and private sector. It should take and endeavor to motive, facilitate and regulate to accelerate the private sectors.
5. There should be efficient and effective monitoring system to utilize government resource properly. For that medium term expenditure framework (MIEF), recommendations made by public expenditure. Revenue commission 2001 should be effectively implemented.
6. Government should reduce resource gap by increasing internal revenue and subsidies likewise, government should only take the foreign loan for productive sector or purposes which has high revenue generating possibility.
7. As per the income tax Act, 2058, the flat rate is levied both to resident and non-resident companies in Nepal. In many countries like India, Belgium, Germany, Indonesia and New Zealand foreign companies are taxed at the higher rate than domestic companies. I feel that in Nepal also, tax rate should be higher day 40% in case of foreign companies as against 20% to 25% in case of domestic companies.
8. Proper tax incentive should be given for revival of sick industrial unit provisions should be made under the income tax Act for carry forward and set off a accumulated losses and unabsorbed depreciation of sick units if it is amalgamated with another company.
9. Corporate tax base should be based on generally accepted accounting principal..

10. Recent decreasing trend of CITR indicates that it is necessary to protect corporate sector from different external security threaded. So, priority should be given to maintain its existence.
11. Nepalese political economy is somehow directly affected by Indian political economy. As the present government of India has started to further liberalization of economic since the annual budget of 2006/07. Nepal has also no alternative to liberalize the economy. In this context, corporate sector should have to increase its competency on one hand and on the other hand private sector should have given reasonable protection by the government.
12. Income tax policy should be formulated according to the economy policy of the country. Income tax policy should be revisiting timely.
13. The members involved in formulate income tax policy must have deep knowledge about income tax.
14. The income tax rules and regulations should be clear and simple for all the tax payers well as for tax administrators. The following recommendations are made in income tax law.
 - a) The language of act should simple and clear
 - b) The assessment and tax collection provisions should be making clear and simple, so that tax payers would be encourage paying income tax.
 - c) Discretionary power of the tax officials should be curtailed in the act.
 - d) The assessment of the time limit after the submission of income assessment should be reducing.
 - e) The definition made in income tax act should be further classified and well defined.
15. The rate of fines and penalties should be increased. The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders.
16. A research and intelligence centre should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new tax payers and non residents who have conducted business without registration.

17. Tax personnel should be encouraged, punished and transferred especially the industry is very poor their number profitability, investment in fixed assets, share of market transactions is all in weak position. Nevertheless the importance of contribution of corporate income tax to government revenue is equally important to Nepal like developing country.

Corporate income tax is based on socio-economic infrastructure and environment. In the corporate income tax structure the debate is going on use of appropriate type of tax incentives treatment of inflection method and role of depreciation. The present provision of tax incentives are found insufficient in the changing global economic scenario especially for revival of sick industrial unit the statutory corporate tax rates are found frequently changed during the study period.

The contribution of CITR to government revenue, total tax revenue total direct tax revenue during the study period seems to be increasing but it was found in decreasing trend since 2002/03 which may serious setback for our nation in generation revenue from internal sources and smooth of economy.

The resource gap seems to be increasing every year. CITR has been contribution on an average 4.23% total government expenditure which looks small in percentage but it is important to agro-based economy country like Nepal.

The new income tax ACT, 2058 has giving the format for method of taxing corporation. But there are still controversies, method and rates using in depreciation calculation for assets taken in lease an installment payment basis.

Unclear vision of government to corporate sector frequent changes of rule and regulations and unstable political economic environment of Nepal have sharply damaged the corporate sector presently income tax revenue is collecting in accordance to the income tax Act,2058. Due to the various problems related to income tax revenue collection from income tax is low in Nepal from different sector. It is blamed that Nepalese income tax law is inappropriate and the administration is not efficient but if we analyze the data relating to it then we can fine out that it is not so bad.

However income tax laws administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad some provisions would have to be mentioned clearly strong commitment fair and uniform importation is to be stored and revitalized within the administration is desired for the efficiency of tax personnel side by side, tax education packages are to be made and imitated hence, tax administration and tax compliance could be improved. On the basis of their work and experience. Regular and effective training system, reward, prize and punishment system should be established for the effective personnel management.

18. Effective public participation is necessary to minimize the income tax evasion continuous effort should be done by the tax authority in order to develop the tax payer's positive attitude for wards taxation.

19. Clear provisions should be made in case of education. All the items of deductions should be clearly defined in the act.

20. To promote export more deduction should be provided.

21. The provision of tax deduction at source and advance payment of tax should be extended to different source of income as far possible.

22. Separate income tax department should be established so that the specialization could be achieved in matter of income tax.

23. Income tax administration implements the tax laws. Therefore, effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system in efficient and unscientific income tax administration following recommendations are made for improvement on income tax administration.

) 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 tax payers regularly.

) Cost of income tax collection is one of determinates of efficiency of administration. Therefore, the concerned authority pay due attention to it should be reduced.

) Unnecessary outside pressure should be avoided.

24. The provision of rewards price, incentives, should be introduction in the act to encourage the tax payers to pay tax voluntarily rather through coercive measures.

25. Efficiency of Nepalese income system mainly depends upon its three major sub system income tax policies, income tax laws and income tax administration. Income tax policy should be made such that the maid objectives of imposing income tax can be achieved.

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Questionnaire to tax Administrators/ Tax Export / Tax payer

Name:
Office /organization:

Designation :
Occupation:

Please tick(\checkmark) the answer of your choice or wherever appropriate put in order of preference from I to last number on the basis of alternatives. Number I stand for the most important and vice versa.

1. Do you think that people are well informed about the tax system in Nepal?"

- i. Yes []
- ii. No []

2. what should be the specific objective of income tax in Nepal"?(please rank)

- i. To en chance the revenue of the government. []
- ii. To meet the government expenditure []
- iii. To narrow the income gap between rich and poor. []
- iv. To achieve the goals of national development and equal economic distribution. []
- v. To check inflation []
- vi. Other, please specify..... []

3. Are you satisfied with the existing income tax system of Nepal"?

- i. Yes []
- ii. No []

If not, what are the major problems in Income tax system? (please rank according to the Priority).

- i. Inadequate economic policy. []
- ii. Inefficient income tax administrative []
- iii. Complicated income tax act, rules and regulation[]
- iv. Difficulty in maintaining account for tax purpose. []
- v. Lack of education to tax payer []
- vi. Lack of awareness to tax payer. []
- vii. Lack of training and sufficient incentives to employees.[]
- viii. Lack of expert in tax management. []
- ix. Illegal business activates. []
- x. Practice of Tax Evasion. []
- xi. Inappropriate rate and exemption unit. []
- xii. Other, Please specify..... []

4. What method is more appropriate in Nepal while accessing income tax"?

- i. Assessment on the basis of accounts submitted by the tax payer.[]
- ii. Self-assessment. []
- iii. Assessment by the committee. []
- iv. Assessment by the committee. []
- v. Other, Please specify..... []

5. In your opinion, is there a major problem of tax evasion in Nepal?

- i. Yes []

- ii. No []

If yes, what are the factors responsible for income tax evasion?(Please rank according to the priority).

- i. Defective tax administration. []
- ii. Inappropriate income tax policy []
- iii. Inappropriate income tax policy.[]
- iv. Loopholes in income tax act. []
- v. Unwillingness of tax payers to pay tax. []
- vi. Lack of unconsciousness in tax payer. []
- vii. Corruption in tax authority. []
- viii. Lack of political commitment. []
- ix. Others, Please specify.....[]

6. Are the provisions of fees, fines and penalties under income tax system is reasonable ?

- i. Yes []
- ii. No []

If not, how can be made reasonable?

- i. By increasing []
- ii. By decreasing []
- iii. Others, please specify..... []

7. What do you feel about the current income tax administration of Nepal"?

- i. Efficient
- ii. Inefficient
- iii. Satisfactory

If inefficient what are the major causes of inefficient of the income tax administration of Nepal?(Please Rank)

- i. Lack of trained and competent tax personal
- ii. Complicated tax laws
- iii. Lack of proper direction
- iv. Lack of proper communication
- v. Lack of voluntary compliance by tax payers
- vi. Unnecessary outside pressure
- vii. Undue delay in making assessments
- viii. Lack of coordination of the tax department with other departments.
- ix. Others, Please specify..... []

8. what are the most important factors for effectiveness of income tax in Nepal ?(Please rank).

- i. Honest tax officers. []
- ii. Honest tax payers. []
- iii. Clear act, rules and regulations. []
- iv. Effective income tax administration. []
- v. Others, Please specify..... []

9. Do you have any others suggestions for achieving effectiveness of income tax in Nepal? If yes, please Specify

.....

Thank You

