CONTRIBUTION OF INCOME TAX TO THE PUBLIC REVENUE OF NEPAL (With reference to Unilever Nepal Limited)

By

RABIN CHAUDHARY Shanker Dev Campus Campus Roll No.: 3051/062 T.U. Regd. No.: 7-2-241-76-2002

> A Thesis Submitted to: Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirement for the degree of Master of Business Studies (MBS)

Kathmandu, Nepal July 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

RABIN CHAUDHARY

Entitled:

CONTRIBUTION OF INCOME TAX TO THE PUBLIC REVENUE OF NEPAL (With reference to Unilever Nepal Limited)

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Prof. Dr. Kamal Deep Dhakal (Thesis Supervisor)

Prof. Bishweshor Man Shrestha (Head, Research Department)

.....

Prof. Dr. Kamal Deep Dhakal (Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva -voce of the thesis presented

By RABIN CHAUDHARY

Entitled:

CONTRIBUTION OF INCOME TAX TO THE PUBLIC REVENUE OF NEPAL (With reference to Unilever Nepal Limited)

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

Master of Business Studies (MBS)

<u>Viva-Voce Committee</u>

Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Contribution of Income Tax to the Public Revenue of Nepal (With reference to Unilever Nepal Limited**)" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** of Shanker Dev Campus, T.U.

.....

Rabin Chaudhary T.U. Regd. No.: 7-2-241-76-2002 Campus Roll No. : 3051/062

ACKNOWLEDGEMENT

First of all, I acknowledge my gratitude to my supervisor Prof. Dr. Kamal Deep Dhakal of Shanker Dev Campus for his encouragement, patience and expert advice, Inland Revenue Department of Lazimpat, Inland Revenue Office of Babar Mahal and Central Library of Kirtipur for supplying me invaluable materials, information and support.

I am grateful to Mr. Hari Shrestha statistic teacher of Shanker Dev Campus for co operation and advice in the analysis of data using statistical tools and technique.

I am also very much thankful to all the teachers and staffs of Shanker Dev Campus for their suggestions and continuous support during the study period. Similarly, I would like to thank Miss Sharmila Parajuli and Miss Pabitra Kafle for their continuous support while preparing this thesis.

Finally, special thanks go to my friends for their co – operation in preparation of this study and my family members for financial support throughout my research.

Rabin Chaudhary

TABLE OF CONTENTS

Recommendation Viva Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

Abbreviations

		Page No.
CHAPTER – I	INTRODUCTION	

1.1 Background of the Study	
1.1.1 Unilever Nepal	4
1.1.2 Performance Review	4
I.2 Focus of the Study	4
1.3 Statement of the Problem	5
1.4 Objectives of the Study	5
1.5 Significance of the Study	6
1.6 Limitations of the Study	7
1.7 Organization of the Study	7

CHAPTER – II CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction	9
2.2 Conceptual Frameworks	9
2.2.1 Concept of Tax	9
2.3 Review of Historical Background of Taxation in Nepal	10
2.3.1 Taxation in the Unified Nepal	10
2.3.2 Taxation in Rana Regime (1846-1950)	10
2.3.3 Income Tax in Modern Nepal	11
2.3.4 Business Profit and Remuneration Tax Act 1960 (2017)	12

2.3.4.1 Income Tax Act 1962 (2019)	13
2.3.4.2 The Income Tax Act, 1974	13
2.3.4.3 Income Tax Act 2002 (2058)	15
2.4 Review of Terminologies Used in Tax and Taxation	15
2.4.1 Income Year (Section 2 Jha)	15
2.4.2 Income Year (Section 2 Jha)	15
2.4.3 Company Section (2DA)	15
2.4.4 Partnership (Section 2 Ka.Pa)	16
2.4.5 (Entity Section 2 Bha) Entity Means the	
Following Institutions or Organizations	16
2.4.6 Individual (Section 2 Waj)	16
2.4.7 Exempt Organization (Section 2 Dha)	16
2.4.8 Assets (Section 2 Ka Dha)	17
2.4.9 Business (Section 2 Ka, Ja)	17
2.4.10 Employment (Section 2 Jha)	17
2.4.11 Retirement Payment (Section 2 Nga)	17
2.4.12 Investment (Section 2 Ka, Kha)	18
2.4.13 Retirement Fund (Section 2 Gha)	18
2.4.14 Tax (Section 2 Dha)	18
2.4.15 Business Assets (Section 2 Ka, Ta)	18
2.4.16 Non-Business Chargeable Assets (Section 2 Da)	19
2.4.17 Depreciable Assets (12 Ka Ra)	19
2.4.18 Associated Persons (2 Ka Na)	19
2.4.19 Taxing Subjects (Sector 2 Ka Nga)	20
2.4.20 Taxable Income (Section -5)	20
2.4.21 Income Heads (Section 7,8,9)	21
2.4.22 Exempt Amounts (Section-10)	21
2.4.23 Business Exemptions and Concessions	22
2.4.24 Special Provisions for Entities (Section 51-58)	23
2.4.25 Special Provisions for Individuals	23
2.4.26 Deduction (Chapter 3)	24

2.4.27 Special Provisions for Retirement Savings	25
2.4.28 International Taxation	25
2.4.29 Tax Rates	26
2.4.30 Set up, Carry Forward and Carry Back of Losses (Section 20)	29
2.4.31 Other Prevision of Income Tax Act 2058	29
2.5 Theoretical Framework of Tax Planning	30
2.5.1 Tax Delinquency	30
2.5.2 Tax Avoidance	31
2.5.3 Tax Planning	31
2.5.3.1 Features and Important of Tax Planning	32
2.5.4 Tax Evasion	33
2.6 Review of Related Studies	34
2.6.1 Review of Previous Thesis	38
2.6.2 Review of Reports	41
2.7 Research Gap	43

CHAPTER – III RESEARCH METHODOLOGY

3.1 Introduction	44
3.2 Research Design	45
3.3 Sources of Data	45
3.4 Population and Sample	46
3.5 Data Gathering Procedure	46
3.6 Data Analysis Procedure	47
3.7 Weight age of the Choice	47

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Tax Structure of Nepal	
4.1.1 Composition of Total Revenue	48
4.1.2 Composition of Tax Revenue	50
4.1.3 Composition of Indirect Tax Revenue	52
4.1.4 Composition of Direct Tax Revenue	53
4.1.5 Contribution of Total Revenue, Total Tax Revenue, Direct	

Tax Revenue and Indirect Tax Revenue on GDP	57
4.1.6 Structure of Income Tax in Nepal	58
4.2 Contribution of Income Tax of PEs in Government Revenue	59
4.2.1 Introduction of PEs	59
4.2.2 Characteristics of Public Organizations	60
4.2.3 Importance of Public Enterprises	60
4.2.4 Objectives of the Establishment of PEs	60
4.2.5 Role of PE's in Nepalese Economy	61
4.2.6 Performance of PEs	62
4.2.7 Contribution of Income Tax from PEs to GDP of Nepal	64
4.2.8 Contribution of Income Tax from PEs to Government	
Revenue of Nepal	65
4.2.9 Contribution of Income Tax from PEs to Tax Revenue of Nepal	66
4.2.10 Contribution of Income Tax from PEs to Direct Tax Revenue	67
4.2.11 Contribution of Income Tax from PEs to Total Income Tax	68
4.2.12 Income Tax from PEs on Corporate Income Tax	68
4.3 Contribution of Income Tax from Unilever Nepal	
4.3.1 Introduction of Unilever Nepal	69
4.3.2 Contribution of Income Tax from Unilever Nepal Government	
Revenue on Nepal	71
4.3.3 Contribution of income tax from Unilever Nepal to Total Tax	
Revenue of Nepal	72
4.3.5 Contribution of Income Tax from Unilever Nepal to	
Total Income Tax	74
4.3.6 Contribution of Income Tax from Unilever Nepal to	
Corporate Income Tax	75
4.3.7 Contribution of Income Tax from Unilever Nepal to PEs	
Income Tax	76
4.4 Presentation & Analysis of Primary Data	77
4.4.1 Income Tax as a Suitable Means of	
Collecting Government Revenue	78

	4.4.2 Opinion towards Contribution of Indirect Tax Revenue	81
	4.4.3 Most Important Factors for Effectiveness of Income Tax	83
	4.4.4 Attitude towards Income Tax Administration in Nepal	84
	4.4.5 Attitude Towards existence of Problems on Income	
	Tax System in Nepal	85
	4.4.6 Attitudes towards Poor Taxpaying Habit among Nepalese People	87
	4.4.7 Contribution of Income tax form Public Enterprise to	
	Government Revenue	89
	4.4.8 Type of Complains from Unilever Nepal	93
	4.4.9 Causes of Filing Appeals by Unilever Nepal to Revenue Tribunal	93
	4.4.10 Effectiveness of Tax Administration to Impose Fine and Penalties	94
4.	5 Major Finding	96
	4.5.1 Major Findings from Secondary Data	96
	4.5.2 Major Findings from Primary Data	99

CHAPTER – V SUMMARY, CONSLUSION AND RECOMMENDATIONS 5.1 Summary 101 5.2 Conclusion 103 5.3 Recommendation 104

Bibliography Appendices

LIST OF TABLES

Table	No. Title	Page
No.		
3.1	Group of Respondents and Sample Size	46
4.1	Composition of Total Revenue	49
4.2	Composition of Total Tax Revenue	51
4.3 4.4	Composition of Indirect Tax Revenue Composition of Direct Tax Revenue	52 55
4.5	Contribution of Total Revenue, Total Tax Revenue, Direct	
	Tax Revenue and Indirect Tax Revenue on GDP	57
4.6	Structure of Income Tax Revenue	58
4.7	Performance of PEs from FY 2002/03 to 2007/08	63
4.8	Contribution of Income Tax from PE to GDP of Nepal	64
4.9	Contribution of Income Tax from PEs to	
	Government Revenue of Nepal	65
4.10	Contribution of Income Tax from PEs to Tax Revenue of Nepal	66
4.11	Contribution of Income Tax from PEs to Direct Tax Revenue	67
4.12	Contribution of Income Tax from PEs to Total Income Tax	68
4.13	Income tax from PEs on Corporate Income Tax	69
4.14	Key Ratio	71
4.15	Contribution of Income Tax from Unilever Nepal GDP of Nepal	71
4.16	Contribution of Income Tax from Unilever Nepal to	
	Government Revenue of Nepal	72
4.17	Contribution of Income Tax from Unilever Nepal to Total	
	Tax Revenue of Nepal	73
4.18	Contribution of Income Tax from Unilever Nepal to Direct	
	Tax Revenue of Nepal	74
4.19	Contribution of Income Tax from Unilever Nepal to	
	Total Income Tax	75
4.20	Contribution of Income Tax from Unilever Nepal to	

	Corporate income Tax	76
4.21	Contribution of Income Tax from Unilever	
	Nepal to PES Income Tax	77
4.22	Group of Respondents and Code Used	78
4.23	Income Tax as a Suitable Means of Collecting	
	Government Revenue	79
4.24	Opinion towards Satisfactory Contribution of Indirect Tax	81
4.25	Most Important Factors for Effectiveness of Income Tax	83
4.26	Attitude towards Effectiveness of Income Tax	
	Administration in Nepal	84
4.27	Attitude towards Existence of Problems on Income	
	Tax System in Nepal	86
4.28	Attitude towards Poor Tax Paying Habit Among Nepalese People	87
4.29	Major Causes of Poor Taxpaying Habit among Nepalese People	88
4.30	Attitude towards Satisfactory Contribution of Income Tax from	
	PEs in Government Revenue	89
4.31	Causes of Unsatisfactory Contribution of Income	
	Tax from PES to Government Revenue	90
4.32	Type of complain from Unilever Nepal	93
4.33	Causes of Filing Appeals by Unilever Nepal to Revenue Tribunal	94
4.34	Effectiveness of Tax Administration to Impose Fines & Penalties	94