

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

A nation requires sufficient funds to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The fund required by the government are normally collected from two sources: debt and revenues. The debt can be collected within the country is known as internal debt while the debt collected from outside the country is called external debt. The debt financing of the government is known as deficit financing. The revenue of the government comes basically from two sources: tax and non-tax. In Nepal more than seventy-five percent of the government revenues come from taxation. Hence, the tax is the major source of government (Bhattarai and Koirala, 2064:1).

Now a day a government has to spend a lot of money to fulfil its responsibility towards its people. The responsibility may be either for security or for health or education or other development activities. Every nation wants to improve its current status through proper utilization of resources. Government receipts may take a form of taxes, fines and charges as internal sources and borrowings, grants and loans as external sources. These collected huge amount of fund is spend in maintaining peace and security in the country. It includes purchase of arms ammunition, maintenance of army and police administration etc. The government also spends its fund for fulfilling the basic needs of the people such

as health, education, communication, drinking water and other public utilities and facilities etc. Similarly, government also has to spend on development of socio-economic infrastructure, which facilities to promote the private sector. All round prosperity of the nation can be achieved through the equal participation of the private sector in development activities, industry and commerce as well.

Government needs huge amount of fund, which can be generated through two sources, internal sources and external sources. Developing countries like Nepal, have limited sources of internal funds. So, most of the development activities depend on the external sources. The external sources of financing are bilateral and multilateral aids, grants and loans from foreign countries or donar agencies. These sources have been limited, inconvenient and unsuitable to boost up our economy due to the vested interest of the donar agencies. The reality is that we have been implementing most of the policies and programs of the donor countries agencies.

On the other hand, government tries to finance resources through internal sources. It is very important to developing country like Nepal to mobilize internal resources where adequate natural resources and low cost labour force are available but the situation is some different. Nepal has not mobilized the internal resources in satisfactory level. The major constraints in internal revenue collection and mobilization are poor utilization of natural resources, small and stagnant industrial sector, partial monetization of the economy, poor performance of public enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration etc.(Agrawal, 1978 : 18).

Nevertheless, internal resource mobilization is equally important to both developed and developing countries. Internal sources of public funds are important not only for necessary financing funds, but also for proper utilization of external sources. Based on the nature of the sources, public funds are also classified into revenue income and borrowings. The revenue income or public income includes taxes, fines, fees, penalties gifts etc. Borrowings include both internal and external. Most of the public expenditure is financed through taxation and borrowings. Taxes and charges are withdrawn from the private sector without leaving the government with a liability to the payee. Borrowings involve a withdrawal made in return for the government's promise to repay at a future date to pay interest in the return (Musgrave and Musgrave, 1989 : 78).

Countries use borrowings to raise the necessary public fund is not good for the economic development of every nation. It reduces liquidity position of the government and increases the inflation. Government has to impose higher taxes to repay the interest and the borrowed sum too. Generally speaking, as sources of public revenue, taxes are better than borrowings because it is merely transferring of funds to public treasuries. So, borrowings are likely to be meaningful only when it is complement to domestic effort rather than substitute for it. Thus, mobilization of resources from domestic sources through taxation seems to be the most viable solution, which is primarily non-inflationary as compared with borrowings. The use of taxes is safer for financing public revenue in developing countries. Deficit financing brings dangerous situation of inflation and external debt are not always reliable. Taxation, in the modern world, has been taken as the best effective tools for raising the ratio of saving to national income (Pant, 1970: 22).

“A tax is a compulsory contribution imposed by a public authority, irrespective of exact amount of service rendered to the tax payer in return and are imposed as a penalty for any legal offense” (Dalton, 1954: 12). “Tax is a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred” (Seligman as cited in Koirala and Bhattra, 2064: 1). The above-mentioned definitions convey that taxes are not voluntary contributions but are compulsory. Therefore, tax is a compulsory charge by government on income of an individual, corporations, or trusts, as well as the value of gifts. The government does not provide direct return in benefit of taxpayer but it is incurred for the common interest of people.

Tax may be classified as direct and indirect tax on the basis of impact and incidence. Direct taxes are those, which are imposed initially on the individual or household that is meant to bear burden e.g. income tax, property tax, vehicle tax etc. Indirect tax is imposed on one person but another person is liable to pay it partly or wholly. Therefore sales tax, death tax, entertainment tax, value added tax, hotel tax etc. are the example of indirect tax.

Mill, J.S., in 1903, defines direct and indirect tax as:

A direct tax is one, which is demanded from the very persons who it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another.

Tax on income may be levied on individual as well as business firm. The former is known as personal income tax and later is known as corporate income tax. A proper tax system should be able to generate the required amount of revenue. A

French scholar, Jean Baptiste Colbert (as cited in K.C.,2007) argues that a fundamental deliberation about principles of taxation. In his urguement, “The art of taxation is the art of plucking the goose so as to get the largest possible amont of feathers with the least possible squealing” (Colbert).

The contribution of income tax is much smaller to the total revenue for the developing countries in comparision to developed countries and is likely to remain same for sometime to come despite the efforts over the years of many least developed countries to raise more revenue. But the importance of income taxation in the under-developed countries cannot be underestimated because saving in such a country donot always take the firms in which resources suitable for economic development are set free. Domestic saving, which might be the mainspring of the economi c development, may often go into unproductive and wasteful canals which obstructs economic development rather than feed it. Such examples are the holding of precious metals and foreign currency, investment in real estate, speculations etc. The form has to be changed so the saving can be mobilized for the economic development. In this regard, taxation can play an important role by directing resources from these channels into useful capital formation (Tripathy, 1968 : 76).

A company or corporate body is a legal organization that is voluntarily created under law. It is an artificial person which can own property, execute contract, rise funds and generate profits. Therefore, corporate tax is a tax levied on companies or corporate bodies. In Nepalese context, there are only a limited number of corporate bodies. Not only this, their performanc is also very dismal. Because of these two reasons, the contribution of corporate tax to the government treasury is not satisfactory in Nepal. Furthermore, the low revenue

productivity from corporate tax is also the result of the various types of incentives especially, the provisions of tax holidays, tax rebates and concessions. The comparison of contribution of Nepalese corporate sector to government treasury with the counterpart of other countries shows that the contribution of Nepalese corporate sector to government is far lower than in OECD countries and india (Kandel, 2000: 12).

Nepal's income tax has feature of both global and scheduler income tax system. Especially, after 1990's there is re-emergence of the liberalization, globalization and privatization system that focuses on the minimum intervention of the state on private sector to the economic matters. The 1950's concept of high incentive, high tax rate is changed to the concept of low rate, wide net. This trend in tax system is followed by most of the countries of the world. Nepal is also not an exception in this respect and Nepalese administrators and policy makers have also tried to change the policy of the country.

Although, Nepal has a long history of taxation, corporate tax was introduced in 1960 when Business Profit and Remmuration Tax Act, 1960 was ecacted, at the beginning, it was not differentiated from the personal income tax. The same tax rate with progressively and exemption limit were prescribed by the Finance Act of 1960 to 1964 to all companies, private firms, individuals and families. From the financial year 1965/66, the tax exemption given to companies similar to personal tax-payers were withdrawn. A separate tax system to companies was introduced by the Finance Act, 1976; Finance Act, 1985 made a provision if giving 5% tax rebate from highest marginal tax rate of 55% to listed public companies and government enterprises. Financial year 1986/87 was the year when the corporate tax really recognized by imposing a flat rete of 40% tax on

taxable income of listed companies. By the same coin, Finance Act imposed tax on dividend also can be reconciled. But this dividend tax was changed exempting dividend to a level of 85% in 1987/88. Finance Act, 1992/93 introduced compulsory self tax assessment system for public and private limited companies. Beside these changes, taxing corporate income at flat rate to the private limited company was enacted from the financial year 1994/95. This change carried out in recent years is the inclusion of dividend of non-industrial within the tax net since the Financial Year 1998/99 (Kandel, 2003: 18). The corporate sector has been classified into three groups are government sector, public sector and private sector. There are also special industries according to establishment and ownership. There are also special industries according to the nature and liability of paying tax. Special sector of companies are levied 20% tax rate on the taxable income of the companies, as per Income Tax Act, 2002. Normal business and manufacturing industries are taxed at 25% and 20% respectively. Banking and insurance business have been taxed at the rate of 30% flat rate. The industries established in the backward area are provided certain facilities, concession, rebates and tax holidays as per ITA 2002. The special facilities provided to manufacturing industries other than liquor and tobacco by ITA 2002 is as follows :-

- Manufacturing companies providing employment to 600 or more than 600 Nepali citizens throughout the year get additional facilities of income tax rebate at the rate of 10% of applicable tax rate.
- Special industries established and operated in least-developed , undeveloped and under-developed areas are given rebate on income tax at the rate of 30%, 25% and 20% of applicable tax rate.

- If both rebates are available to the same industry for the same income, only one rebate is available as per the selection made by the industry.
- Industries established in special economic zone or export promoting zone are granted income tax rebate at the rate of 50% of the applicable tax rate.
- Special industries operated in remote area are provided tax holiday for first 10 years from its commencement of operation.
- Special industry operated as entity can get additional depreciation on depreciable assets to be charged as deductible expenses.

The present study has been designed to study the special facilities provided to manufacturing industries, contribution of tax and non-tax revenue and income tax in total revenue.

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 from this condition; the majority of people have not been able to fulfil basic requirements. The government wants to fulfil the basic needs of the people and accelerate development activities one at a time. Thus, every nation of the world is accomplishing various measure adopted by the government to boost revenue collection, there is still a substantial resource gap because 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 deficits, currency devaluation, inflationary pressure, rising interest rate which may cause crowding out effect and reduction in economic growth are the consequences of the budget

deficits. The mobilization of revenue has not increased the level in which the level and speed of our expenditure is rising. Raising the government revenue helps to overcome the bottleneck of resource gap in the process of economic development program by mobilizing additional resources from domestic sources.

Achievement of these contradictory objectives is difficult task but it should be tried as best as per capacity. It needs to review the incentives and facilities provided by the income tax from time to time and should adjust as per the requirement. So this research has tried to study the tax incentives to industries provided by ITA 2002. So, it carry out the following problems:

- Do tax incentives and facilities play vital role in industrialization?
- Are the incentives and facilities to industries provided by ITA sufficient?
- What kind of tax incentives and facilities are necessary to industries?
- Are the incentives and facilities effective ?
- What may be major problem in tax incentives provided by ITA to industries?
- What may be the potential provision regarding incentives and facilities to industries in ITA?

1.3 Objectives of the Study

The main objective of the study is to analyze the impact of special provisions in industries provided by ITA, 2002. Following are the other objectives of the study:

- To study and analyze the contribution of tax and non-tax revenue in public revenue.
- To see and examine the contribution of income tax in total revenue, tax revenue and direct tax.
- To evaluate the income tax structure in Nepal.
- To examine the impact of special facilities provided to manufacturing industries by Income Tax Act 2002.
- To recommend possible measures to the concerned parties on the basis of study result.

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 needed to grow and develop corporate sector in our country. To participate the private sectors in the corporate business, the government has to provided incentives in sectorial basis. The government incentives play a vital role in the economic development of country. Government of every country provides incentives to industries but it is very important to assess its effectiveness because it has double benefit for the government. Development of industries in the country is the symbol of independent economic and favourable balance of payment (BOP). On the other hand, government can collect sufficient revenue to spend in daily expenses as well as development activities.

Each year, Nepal Government (NG) has been presenting deficit budget. There is increasing in resource gap. Most of the activities depends on bilateral and

multilateral grants and loans. Internal sources of revenue is hardly meeting the ordinary or administrative expenses. In this context, the easy and long lasting way to increase revenue to strengthen the internal source of income is income tax. In developing countries, like Nepal, corporate sector tax is dominant to individual sectors but individual tax-payers is dominant to corporate tax-payers. Thus, revenue collection from income tax from manufacturing industries by providing special facilities is carried out by ITA 2002 by eliminating the limitations of previous acts.

The study is useful to economic-planners, tax-administrators, government and other interested person about the revenue collection from the manufacturing industries in Nepal and the problems of income tax collection from manufacturing industries. It also provides the information about trends and projection of income tax collection.

1.5 Limitations of the Study

The study has the following limitations:

- The study is mainly based in Income Tax Act 2002 and various Finance Acts.
- Some secondary data also taken into consideration.
- The study is related only with contribution of income tax in total public revenue, tax revenue and direct tax revenue.
- This study has been conducted to fulfill the requirement of the MBS programme of T.U. for the prescribed time, not for generalization purpose.

1.6 Generation of Hypothesis

In the research, to provide more validity by empirical study two type of hypothesis is set that first is set on secondary data and second is set on primary data.

1.6.1 With the Base of Secondary Data

Hypothesis 1, for the marginal rate of income tax.

H_0 : There is no significant difference in marginal income tax rate on GDP before and after the period of income tax reform in 2002.

H_1 : There is significant difference in marginal income tax rate on GDP before and after the period of income tax reform in 2002.

1.6.2 With the base of Primary Data

Hypothesis 2, for the special facilities to manufacturing industries.

H_0 : There is no significant difference of people opinion towards the need of special facilities to manufacturing industries.

H_1 : There is significant difference of people opinion towards the need of special facilities to manufacturing industries.

Hypothesis 3, for effective implementation of special facilities in manufacturing industries.

H_0 : There is no significant difference of people opinion towards the causes of not effective implementation of special facilities in manufacturing industries.

H_1 : There is significant difference of people opinion towards the causes of not effective implementation of special facilities in manufacturing industries.

Hypothesis 4, for the impact of ITA 2002 in special industries.

H_0 : There is no significant difference of people opinion on the area of affecting by ITA 2002 on special industries.

H_1 : There is significant difference of people opinion on the area of affecting by ITA 2002 on Special industries.

Hypothesis 5, for the classification of area for tax purpose.

H_0 : There is no significant difference of the people opinion on the classification and rebate rate made by ITA 2002.

H_1 : There is significant difference of people opinion on the classification and rebate rate made by ITA 2002.

Hypothesis 6, for accountability on rights and duties by tax-payers.

H_0 : There is no significant difference of people opinion on responding their rights and duties by industrial tax-payers.

H_1 : There is significant difference of people opinion on responding their rights and duties by industrial tax-payers.

Hypothesis 7, factors for the industrial development in the country.

H_0 : There is no positive correlation between the rank of factors for the industrial development in the country.

H_1 : There is positive correlation between the rank of factors for the industrial development in the country.

1.7 Organization of the Study

This study is organized into five chapters. Each denotes to some aspect of the study of clearing and settlement system. The title of each of these chapters is as follows:

Chapter 1 :- Introduction : This chapter contains following sub chapters.

-) Background of the study
-) Focus of the study
-) Statement of problem
-) Objectives of the study
-) Significance of the study
-) Limitations of the study
-) Organization of the study

Chapter 2 :- Review of Literature : This chapter contains;

-) Review of published materials
 - ✓ Review of books
 - ✓ Review of reports
 - ✓ Review of articles

-) Review of unpublished materials
 - ✓ Review of dissertations
 - ✓ Review of IRD circulars

Chapter 3 :- Research Methodology

This chapter presents the way followed in the case of conducting of research.

Chapter 4 :- Presentation and Analysis of Data

This chapter deals with presentation and analysis of secondary as well as primary data and major findings of the study.

Chapter 5 :- Summary, Conclusion and Recommendations

This chapter presents summary, conclusions and recommendations of the study.

CHAPTER-II

REVIEW OF LITERATURE

With realizing the literature review is the foundation to lead research process ahead through understanding variables related to topic, many published and unpublished materials were taken to be considered. Even though lacking the materials resembles topic, efforts were exerted for searching literature through various sources of well.

2.1 Conceptual Framework

The major goal of income tax in Nepal is to generate more internal resource for public finance. Among them tax revenue is in of the major internal source. For the economic and infrastructure development of a nation, manufacturing industries play a significant role. The tax collection from industries contributes a significant amount in total tax collection. The various policies of the government to collect tax and promote the industries have been initiated special grants and provisions. Thus, this research attempts to find the impact on manufacturing by special provisions provided under ITA 2002.

2.1.1 Background

The launching of all programs depends first and foremost on the treasury. Whether to pay salary to government employees or to do the development works, it needs huge amount of money called revenue. The government collects the revenue from different sources such as tax, remittance from public

enterprises, fees, fines, grants and deficit financing. However, across all these sources of collecting the public revenue, taxation is the main source since it occupies the most important part of government treasury. Because of his importance of this source in revenue mobilization of a country, some people like to say tax as the sinews of the state.

2.1.2 Meaning of Taxation

Taxation is a system of laying taxes. The system is a set of principles. Thus, the system of levies was developed after the origin of tax. Various people have defined taxation in different ways. In this respect, it would be better to take the definition given by professor Seligman. In his word, tax is the “compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred”. From the above definition, it can be said that firstly, a tax is a compulsory levy and those who are taxed, have to pay without getting corresponding benefits or goods from the government. The tax-payer has no any right to receive the direct benefit from the government instead of tax paid. Due to this compulsory nature, people have expressed different views in satirical way about taxation. In this respect, some say, “nothing is certain in this world but death and tax”; some say, “death and tax both are certain but death is not annual”. Here, it should be noted that all the compulsory payments are not tax. For example, fine and fees are also compulsory payments without getting benefits but it is non-tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any direct benefits from the payment of tax. The taxpayer does not receive equivalent benefit from the government. In case of tax, it is not a price paid by one for which he can claim for goods and services

by public authority is not tax. Thirdly, the tax is paid to the government for running its operations. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or artificial person pays the tax.

In conclusion, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assessor has income of a minimum amount from certain specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities which have been chosen for taxation.

2.1.3 Principles of Taxation

The principal purpose of taxation is to raise required revenue to support public services. Good tax system is a prerequisite to attain goal of required revenue. The goal may be obtained through many ways. However, among the tax systems of different nations, wide variations exist in how much money is raised and spent. Thus the principles of taxation views as of equity and fairness, simplicity neutrality, efficiency and incentives.

➤ Equity and Fairness

Equity and fairness denote a general condition characterized by justice and impartiality in the income tax system. The condition of justice and impartiality is a very crucial aspect of tax policy to intersect each other. Economists consider four principles of equity and fairness to determine the burden of tax such as horizontal equity, vertical equity, progressivity and perceived fairness.

➤ **Simplicity**

Simplicity is an important aspect of taxation. Complicated tax principles make the system difficult for citizens to understand. Complexity is harmful for both government and taxpayers. Therefore, simplicity principle of taxation contains to easy to understand and low transaction cost for both government and taxpayers and easy to put into practice. Simple principles of taxation help to eliminate tax loopholes and encourage compliance.

➤ **Neutrality**

Neutrality is a term referring to the impact of taxation on the economy. It is that the tax measure or policy should not introduce excess burden into the normal working of the economy by significantly distorting economic incentives and changing behaviour. The distinctive quality for one encourages to shift investment from one to another for future benefit ignoring real spending economic decision.

➤ **Efficiency**

A good tax system should spend as little amount and resources as possible to obtain a huge amount of revenue. Taxes those are costly or difficult to administer redirect resources to not-productive use and reduce assurance in both the levy and the government. There are three basic factors come into consideration: administration cost, compliance costs, and excess burden to judge the quality of efficiency.

➤ **Incentives**

Tax incentives are items of motivations toward taxation. In absence of the motivation and if tax rates that are too progressive may discourage both work and investment by removing much of the reward. Thus good taxation should provide incentives to the prioritized industries.

The outlined principles of taxation can come into conflict with each other however each of these principles certainly helps policymaker to improve State's tax system.

2.1.4 Objective of Taxation

Taxation has been a very essential element of the government from the very beginning of the state system. However, the objective of taxation has been different stages. In ancient times, the objective of taxation was strengthening the muscle of the state by providing the resources. In modern days, the objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is raising revenue to have resources mobilization, equal distribution of wealth and income in the society; encouragement in production of certain products; encouragement in employment, saving and investment removal of regional imbalance and enforcement of government.

2.1.5 Classification of Taxes

Economists have classified a long list of different types of taxes under different bases. These may be grouped on the basis of their form, structure, nature,

essence and volume. On the basis of form, economists have divided taxes into two categories: direct and indirect. Specially these taxes are based on place of payment.

2.1.5.1 Direct Tax

Direct tax is that tax which is actually paid by the person on whom it is imposed formally. A direct tax is one directly to the government by the person on whom it is imposed. Income tax, corporate tax, property tax are the example of direct tax. The characteristics of a direct tax are equitable as per the property or income, certainty as per the process of payment amount to be paid, timeliness on payment, elastic in nature etc.

2.1.5.2 Indirect Tax

Indirect tax is that tax which is imposed on one person but another person abid to pay it partly or wholly. Indirect tax are demanded from one person in the expectation and intention that he will indemnify himself at the expense of another. The examples of indirect tax are sales tax, value added tax, entertainment tax, hotel tax etc. The main features of indirect tax are convenience to pay, mass participation, limited evasion etc.

2.1.6 Income Tax in International Context

Modern forms of income tax was first introduced in Great Britain in 1799 to finance for war with France. Only after 1980, it was accepted as a permanent tax. In United States of America, first federal income tax was imposed in 1894 to

finance for civil war expenditure. However, it becomes a permanent feature only in 1913 after sixteenth amendment to US constitution. In neighbouring country India, first income tax was introduced in 1860. After introducing 'Income Tax Act 1886' in 1886, it was imposed as a permanent. Italy adopted income tax in 1864, in Canada in 1917, New Zealand in 1981 and Australia in 1951. After first world war, the income tax became an important source of tax revenue in most developed countries and had made appearance in a number of developing nations. (Agrawal, 1978: 13)

From the First World War decade, income tax shown as an important sources of revenue in developing countries. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and New Zealand.

2.1.7 The History of Income Tax in Nepal

Nepalese tax system was based on Vedas, Smritis, and Purans. Directives propounded by Manu, Yagnabalka, Chanakya etc. guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the activities of people.

In the Lichhavis regime, income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal. Tax on agriculture income was called "Bhag" and tax on business was called "Kar". Irrigation tax and monuments preservation tax also existed at the time of King Ansubarma. During the period of 1768-1846 AD different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birta and Kipat, taxes on land, monopolies customs, transit and market duties, mines and

mints and the exports of forest products, birds, animals and various levies and fines. Taxes were collected at three levels: Royal palace levies, government levies and local levies. The various taxes levied during the period were narrow in base and were imposed primarily on occupation and economic activities, not in income or property. There were no taxation of income in the modern sense of income tax.

During the period of Rana regime, there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objective, need and whims of the ruling the Prime Minister. There was not provision of separating the personal income of Prime Minister and state treasury. There was no system of preparing government budget. The surplus revenue over expenditure was considered the personal income of Rana Prime Minister.

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the form lump sum contracts, royalties on forest, royalties on supply of porters and soldiers, entertainment tax and a few other minor taxes. Income were not taxed for raising regular revenues of the state treasury but for meeting specific expenditure of the household of extra-ordinary expenditure necessitate by war or other emergencies.

There was no direct tax in the country except land tax collected on a contractual basis and “Salami” which the government employees used to pay out of their salaries at a very small percentage. The Salami was abolished in 1951. The Rana rulers did not think of development of effective revenue administrative system, after the advent of democracy in Nepal in 1951, no taxes were levied and collected in Nepal except in accordance with law.

Although different taxes were levied in different forms and names, the concept of income tax was brought only by the first budget. The budget introduced in 1951 AD (2008 BS) stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 BS (1960 AD). When the Finance Act, 2016 and Business Profit and Remuneration Tax Act 2017 were enacted. The marginal rate of tax prescribed these act was 25% . Since the income tax was imposed only on income from business profit and remuneration; the tax act could not cover all the sources of income and so was replaced by the Income Tax Act, 2019 in 2019 BS. Income Tax Act, 2019 with 29 sections divided the heads of income into nine parts covering business, profession and occupation, remuneration, house and land rent, cash and kind investment, agriculture, insurance business, agency business and other sources. The act was amended in 2029 BS extensively. However, considering this act incapable of fulfilling the need of the time was replaced in 2031 BS (1974 AD) by another act.

As already stated, Income Tax Act, 2031 replaced Income Tax Act, 2017 in 2031 BS. This act having 66 sections classifying the sources of income into five heads namely, (1) Agriculture, (2) Industry, Business, Profession or Vocation, (3) Remuneration, (4) House Rent and (5) Others sources. However, agriculture income was kept outside the tax net except few years through the Finance Acts. This act was amended for eight times and existed for the period of 28 years.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws

relating to income tax, the parliament of Nepal enacted Income Tax Act 2002 (in 2058 BS). This act become effective since 1st April, 2002 (Chaitra 19, 2058). The act governs all income tax matters. Likewise, this act is applicable throughout the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal.

2.1.8 The Features of Income Tax Act 2002

Tax system is the sub-system of the total economy. Tax policy is changed with the change in the economic policy of the country. Change in the world economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economies like Nepal have to adopt the economic policy followed by World Bank, International Monetary Fund, Asian Development Bank and other International Agencies. Especially, after 1990s, there is re-emergence of the Liberalization, Globalization and Privatization system that focuses on the minimum intervention of the state on private economic matters. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country. Income Tax Act 2002 is the result of change in all these matters. The silent features of the ITA 2002 can trace as mentioned below.

- Act as regarded as income tax code having intergrating of act related to income tax. This act overrides the other tax related laws.
- Include all potential taxable sources into tax net with considering present and future scenario.
- Equity rate of computing tax for similar sources of income (i.e. horizontal equity) even if earning of taxable sources of tax exempt entity.
- Deduction facility of expenses related for earning taxable income.

- All potential sources of related income have been specified with given held of income but, there is not specified expenses allowed to deduction.
- Provision of carry forward of loss upto four year except banking, insurance and long-term contract that's for five years.
- Incentive facility is provided for entity related to infrastructures construction, hydroelectricity project and special industry.
- Fully adoption of self-assessment tax system. And provision to accept submitted statement of tax assessment or advance paid tax is accepted even if not given statement.
- Provision of justice for appeal revenue judiciary against dissatisfaction toward decision of Director General in the administrative review.
- One entire agency is maintained in the eye of taxpayer by integrating departs and defined the duties and area of their officers. Provisions have been made systematic for delegation for authority on the internal department.
- Clearly mentioned about the right of taxpayer.
- For controlling tax fraud, General Anti-Avoidance Rule (GAAR), control of transfer pricing, control of dividend stripping and easily access of information has been maintained.
- Provision for imposing tax on global income through clearly defined of resident person.
- Amount reconciled by deduction at the time of payment allowed deducting at final payment of tax.
- Public identity procedure Permanent Account Number (PAN), design of documentation clear order to tax assessment, tax deduction certificate and identify card of officer has been made transparency for administration classification and providing service to the taxpayer.

- Equal facility of medical tax credit for natural person and reduction facility to person earned income from rural sector.
- Accrual and cash basis of accounting system, and determine presumption system to medium businessmen.
- Special provision for claiming expenses of Pollution Control Cost (PCC), Research and Development (R&D) Cost.
- Pool based system of depreciation facility to make expense is relatively highly incentive besides allowances of depreciation on tangible assets.
- Imposing tax on branch office income that is sending to foreign land.
- Levied person is divided into natural and entity which includes company, trusts, partnership firms, foreign government establishment and government bodies.

2.1.9 Sources of Income

Income is the accretion of wealth or purchasing capacity of a person or entity. According to ITA 2002, it is the term used to define income derived from employment, business and investment. It is the gross income less deduction allowed under act. This means, ITA 2002 has specified sources of income into three heads.

- 1) Income From Business (section 7)
- 2) Income From Employment (section 8)
- 3) Income From Investment (section 9)

Section 6 of the Act specifies that the assessable income includes income earned from any country of the World in case of resident and income earned in Nepal in case of non-resident.

2.1.10 Exemption in Income Tax Act, 2002

An amount of income allowed by law as tax-free is exempt amount if income. Such amount of income is not included in total income while calculating the net income of a person. The expenditure related to such income is also not deducted while calculating the assessable income of a person {ITA 2002 : sec.21(1c)}. Accordingly, no amount is deducted at source while making the payment of such amounts.

The following amounts are exempt from tax according to ITA, 2002 (sec. 10) :

- (a) Amount derived by a person entitled to privileges under a bilateral or multilateral treaty concluded by NG with any foreign country or international agencies;
- (b) Amount derived by an individual from employment in the public service of the government of a foreign country provided that:
 - 1) The individual is a resident person solely by reason of performing the employment or is a non-resident person; and
 - 2) The amount are payable from the public funds of the country;
- (c) Amount derived from foreign sources by an individual or member of his immediately who is not a citizen of Nepal;
- (d) Amounts derived by an individual who is not a citizen of Nepal but employed by NG on terms of a tax exemption;
- (e) Allowances paid by NG to widows, elder citizens, or disabled individuals;
- (f) Amounts derived by way of gift, bequest, inheritance, or scholarship;

- (g) Amounts derived by an exempt organization by the way of gift or other contributions whether or not contribution is made in return for consideration provided by the organization or amount received by Neapl Rastra Bank as per its objectives;
- (h) Amount received as pension from foreign government treasury by a Nepalese citizens as a retired army or policeman.

Section 11 of ITA, 2002 has made provision of income exempted from tax which can be explained below:

a) Income from Agriculture

Income from agriculture is exempt from income tax, if all the following conditions are satisfied:

- A person registered as a firm, a partnership, a company or a corporate body has not run the agriculture;
- An industrial unit has not held the land for industrial purpose as specified by a notification from NG and as per the term of the notification under Section 12(d) of Land Act, 2021; and
- An agro-industrial unit has not held the land for agro-based industries as specified by a notification from NG and as per the terms of the notification under section 12(e) of Land Act,2021.

Agricultural income means an income from crop farming on public or private land and also deriving rent from tenant (Mohi) using the land.

The following activities may be treated as agricultural business:

- Cultivation of crops, primary procession to make them saleable, and the sales of the crop. The sale of the grass or other byproducts is also taken under the agricultural business; and
- Rent derived by the farmer from a tenant who uses the land for farming.

b) Income derived by certain Cooperative Societies

Income of a cooperative society, having incorporation under Cooperative Society Act, 2048, earned from any one or more activities stated below is exempted from income tax.

As per section 11(2) duly amended by Finance Act, 2063, the income of a saving and credit cooperative society or institution based on rural community is exempted from tax.

c) Income of a Cottage Industry

The exemption of tax provided to a cottage industry is repealed by the Finance Act, 2063. Cottage industry means, labour oriented industries that produce goods showing national arts, culture and customs employing certain specific skills, indigeneous raw materials and equipments.

2.1.11 Types of Industries

Industries are various types. It has categorized in Industrial Enterprise Act, 1992. Normally industries can describe as follows:

Manufacturing Industries:

Industries which produce goods by utilizing or processing raw materials, semi-processed materials, by-products or waste products or other goods are manufacturing industries. Manufacturing industries produce tangible product to create size utility in the product.

Energy Industries:

Industries generating energy from water resources and wind, solar, coal, natural oil and gas and bio-gas or any other sources is energy industries.

Agro and Forest-Based Industries:

Industries mainly based on agriculture or forest products such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, vegetable seed farming, mushroom vegetable farming or vegetable processing, tissue culture, green house, bee-keeping, honey production, rubber farming, floriculture and forestry related business such as lease-hold forests, agro-forestry, etc.

Mineral Industries:

Industries related to excavation or processing of mine and mineral products are mineral industries.

Tourism industries:

Tourist lodging, motel, hotel, restaurant, travel agency, skiing, gliding, water rafting, cable car complex, pony-trekking, hot air ballooning, para-gliding, golf-course, polo, horse-riding, bungee jumping, mountaineering, etc. are related to tourism industries. Tourism industry has bright future in Nepal and it is the major source of foreign currency of Nepal.

Service Industries:

Service industries provide service to other industries and general public. Their product is service. Workshop, printing press, consultancy service, ginning and baling business, cinematography, public transportation business, photography, hospitals and nursing homes, educational and training institutions, laboratory, air services, etc, are service industries.

Construction Industries:

Construction industries are related to the construction of infrastructure. Industries related to construction of road, bridge, hydro-electricity projects, ropeway, railway, trolleybus, flying bridge and industrial, commercial and residential complex are construction industry.

Cottage Industries:

The traditional industries utilizing specific skill or locally available raw materials. These industries are labour intensive and related with national tradition, art and culture.

The Finance ordinance, 2062 adds a clarification clause defining a cottage industry. As per the definition, cottage industry means 'labour oriented

industries that produce goods showing national arts, culture, and customs employing certain specific skills, indigenous raw materials and equipments'. But the following industries are excluded from the definition for income tax purpose:

- a) Dying, carpets, pashmina, woolen garments; and
- b) An industry that uses motors of more than Five Horse-power driven by either of electricity, diesel or petrol.

Small industries:

Industries with a fixed assets of up to an amount of thirty million rupees shall be named as small industries.

Medium Industries:

Industries with a fixed assets between thirty million rupees and one hundred million rupees shall be named as medium industries.

Large Industries:

Industries with the fixed assets of more than one hundred million rupees shall be named as large industries.

National Priority Industries:

- 1) Agro and forestry-based industries.
- 2) Engineering industry (producing agricultural and industrial machine).
- 3) Industry manufacturing fuel saving or pollution control devices.
- 4) Solid waste processing industry.

- 5) Road, bridge, tunnel, ropeway and flying bridge constructing and operating industry, and trolley bus and tram manufacturing and operating industry.
- 6) Hospital and nursing home (only outside the Kathmandu valley).
- 7) Industries producing ayurvedic, homoeopathic and other traditional machine, and industries producing crutch, seat belt, wheel-chair, stretcher and stick and so on to be used in aid of the disable and orthopedic.
- 8) Cold storage installed for the storage of fruits and vegetables.

Special Industries:

Special industries are those for which additional facilities and considerations are paid by the government. ITA, 2002 has provided more facilities for industries under this categories. As per the clarification clause of section 11, a special industry is an industry categorized under section 3 of Industrial Enterprises Act, 1992. Those manufacturing industries other than cigarettes bidi, cigar, chewing tobacco, khaini, alcohol or beer producing industries and industries producing goods of a similar nature utilizing tobacco as the basic raw material are special industries. As per section 3, the manufacturing industries are those which produce goods by utilizing or processing raw materials, semi-processed materials, by products or waste products or any other goods.

Facilities and Concessions Provided to Special Industries: (Sec- 11)

- No income tax in excess of twenty percent shall be levied on the income derived from any industries other than the industries producing cigarettes, bidi, cigar, chewing tobacco, khaini and industries producing other goods

of a similar nature utilizing tobacco as their basic raw materials, and alcohol or beer producing industries.

- Tax concession available to a person running a special industry which produces direct employment to six hundred or more Neapli citizens through-out the year of 10% of the rate applicable to the person.
- An special industry established in the remote area as declared by NG can avail 10 years tax holiday from the starting period. No tax concession is available after the expiry of this holiday period.
- An special industry established in highly undeveloped, undeveloped area and under-developed area as declared by NG can get concession of 30%, 25% and 20% of applicable tax rate respectively for the first 10 years. Districts lies in different area are shown in Appendix 1.
- An information Technology based industry established in IT Park as notified by NG publication in Official Gazette the tax is levied at the rate of 75% of the otherwise applicable to the income of that year.
- Income derived by the industries established in special economic zone is exempted for the period of five years commencing from and including the year in which the operation commenced. After the completion of the exempted five income years, they are taxed at the rate of 50% of the rate applicable to the income of that year.
- A natural person if involved in operating special industry throughout the income year or involved in infrastructure work is taxed at the rate of 20% of the rate otherwise applicable to the income of that year.
- An special industry operated by an entity can deduct additional one-third of allowable depreciation as per rule. But this facility is not provided to the industry operated by the natural person.

- Any national priority industry, which constructs and operates road bridge, tunnel, ropeway, flying bridge, and manufacturing and operation of trolley bus and trams shall be taxed at the rate of twenty percent.

2.2 Review of Books, Journals and Thesis

Income tax was imposed in Nepal by the first Parliamentary Government in 1959. Then after, various studies were made and researches conducted by different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. some of the books, reports and dissertations that are reviewed during this study are as follows:

2.2.1 Review of Books

Agrawal, Dr. Govinda Ram (1980) wrote a book entitled, “Resource mobilization in Nepal” published by CEDA. The book had been divided in to eight chapters; the first chapter deals with special to Nepal. The second chapter deals with fiscal policies in Developing nation and Nepal and third chapter looks at income tax in Nepal from the historical prospective the fourth deals with structure of Nepalese taxation.

In the fourth chapter related to tax structure, the writer had concluded that taxation trend in Nepal have been shown that role of indirect taxes have been predominant in the tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, since 1974/75 the role of income tax had

been increasing. Agrawal had made an empirical study taking tax policy-makers, tax-experts, tax administration, tax lawyers, accountants and tax payers of different parts of Nepal. From the study, he had concluded that Nepalese taxpayers were favorably disposed to income tax. However, the major constraints in the effective functioning of tax system seem to be administrative deficiencies, poor tax paying habits, lack of taxpayers' education, complex procedures and defective tax information system.

Paudel, Santosh Raj and Timilsina, Prem Prasad (1990) published a book income tax in Nepal. In the book, they have written on the income tax act, 1974. In the book they described detailed computation of income from various sources and described other theoretical aspects too.

Khadka, R.B. (1994) published a book entitled, "Nepalese Taxation: A path for Reform". The book dealt with both national and international taxes. The writer had detailed describe the scenario of Nepalese tax system from origin of income tax, adoption of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Tiwari, N. R.(1999) has written a book entitled, “Income tax syatem in Nepal”. He has described the provisions under income tax act, 1974 in detailed. This book has described the theoretical concept of income tax system, taxable income, industrial enterprise act, 2049 and income tax administration and tax official etc.

Dhakal, Kamaldeep (2001) has written a book entitled, “Income tax and house and compound tax law and practice”. He has described the provisions under Income tax in Nepal. This book described about income tax in Nepal, house and compound tax and VAT etc.

Adhikari, R.B. (2003) discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocal relating to avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income between different countries had also in his book.

Mallik, B.D. (2003) published a book entitled, “Nepal ko Adhunik Aayakar Pranali”. This book especially deals with the thorough analysis of Income Tax Act 2002 with example. Every section of income tax act has been clarified with suitable examples. He has written about the development of existing income tax and need and importance of income tax in Nepal. The new provision made by ITA, 2002 about tax base, computation of income, tax exempt amount, allowable deductions, accounting of tax, retirement saving and tax, dividant tax, capital gain and international taxation, tax auditing have been classified precisely in his book. Similarly, the book had also explained about

administrative, documentation, information collection, payment of tax, installment tax, income statement, tax assessment, tax collection, review and appeal, fees and interest, fine and penalties, tax and determination of provision of depreciation etc.

Aryal, K.P. and Poudel, S.P. (2004) wrote a book entitled, “Taxation in Nepal”. They had explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.S. It has been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature income and expense items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively. The book also included the proper bibliography and adequate appendix where various income tax, house rent and VAT related forms, schedules and format had been described.

Agrawal, FCA Jagdish (2006) has published a book entitled, “Income Tax: theory and practice”. This book has been written focusing for the students of CA. It is mainly concerned to analyze and interpret the legal provision relating to the income tax in Nepal and what provision is made in India in such point which creates conflicting or confusing meaning. In this book, writer has mentioned all rights and duties of taxpayers and tax administrators with proper definition of the terms and examples for the easy understanding to the readers.

K.C.,Jit Bahadur (2007) wrote a book entitled, “Tax Laws and Tax Planning : Theory and Practice”. It includes calculation of tax liability of both individual and entity. It explicitly explains inclusions and exclusions from business and investment income; deductions allowed in calculation of taxable income; basic timing and accounting issues; and characterization of income. This book explains proper taxpayer responsibility for reporting methods of taxation of income and need of compliance.

2.2.2 Review of Research Reports and Articles

Various research reports and articles are reviewed to broaden the frontire of knowledge in related to the topic of the study. All of them, notable reports and articles and their conclusions are mentioned below:

Research reports of Dr. Govinda Ram Agrawal (1978), entitled in “Research Mobilization for Development” had explained many variables related to income tax and suggest to reform in some field to make tax policy efficient for collecting resources. Until that period that was only one veteran research conducting for examine tax policy through taking responses from various people of walk in lives. Especially, he emphasized finding for effeciveness of income tax reform that was just done in 1974. With taking sample of 170 responded to filling 30 questionnaires, Agrawal suggested to national tax structure to include various tax instruments for balancing indirect and direct taxation. Present that is long gap of conducting research tax system has enforced many tax system that was suggested in 1978 like, property or wealth taxation, withholding tax, capital

gain tax and consumption tax. Improving of administration system to successful implementation of tax reform was more concerned by Agrawal for mobilization of resources by tax net was urgent need in Nepal.

United Nation (1997) published a journal on public finance entitled, “Guidelines for improving tax administration in developing countries”. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate incentives and underlying consideration and explanatory. Functions of tax administration, identification and registration of taxpayers’ education, information provider and assistance etc. The study had expained these two functions and the study had recommended some valuable suggestions to the developing countries.

Adhikari, Dr. Chandra Mani has published an article from Rajaswa (Vol:2 : 2001). In the article, he has expalined the need of tax policy that can play vital role in Nepalese economy. According to him, a little attention on tax administration can minimixe the role of tax policy. Nepalese income tax ins waiting for comprehensive and integrated taxation plan and scientific implementation of the same by the way of return. He analyzed the gap which is investigation and identification gap, return filing gap, assessment gap and collection gap etc. To minimize the goal of collection revenue, tax administration is major component of tax policy.

Pant, Parameshwor (Rajaswa: 2004, April; vol.1) wrote an article entitled, “Problems in Tax Administration and Their Remedies” published in journal of finance and development. He has comprehensively explained about the

problems and their remedies related with the tax revenue and major types of practical problems and challenges in tax administration. He had mentioned in his article where showing limited amount of transaction showing low selling price, less of issuing in taking bills, lack of showing the real factory cost, commercial fraud, lack of cooperation in tax auditing, legal ambiguity and complexity in implementation and place of coordination between inland revenue department and investigation unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were statistical and information system should be properly managed, fixed norms and standards should be made compulsory, coordination between IRO with various entities of NG, revenue investigation and its related units should play the important role.

2.2.3 Review of Thesis

Pandey, Kadar Bilas (1978), in the dissertation “An analysis of Income Tax in Nepal” has studied the role of direct tax in total tax revenue and total revenue. Indirect tax has dominant role to control the inflationary trend of the country. He has studied the legal aspects of income tax in the resource mobilization and economic growth from income tax.

Nepal, Naina (1983) has studied entitled “A study on problems and prospects of income tax in Nepal” and concluded the major problems which were existing in Nepalese income tax system in Nepal. She identified that ineffecient income tax administration, mass poverty, lack of tax consciousness, low number of taxpayers, narrow coverage, assessment deficiency etc. If these problems can be solved then revenue of Nepal can be maximize through income tax.

Shrestha, Roshan (1985) has conducted a study entitled “Income Taxation in Nepal : A Study of its Structure Productivity and Problems”. In his study, he focused on productivity with respect to GDP and its components. He found that income tax has been contributing significantly in direct taxes. In Nepal tax effort ratio is still very low in comparison to other developing countries.

Regmi, Shambhu Nath (1986), conducted a dissertation entitled “The role of Income tax in Nepal”. He has studied the trend and contribution of income tax in the development efforts on Nepalese government. He has studies the inflationary trend within the country, productive capacity in country economy, mobilize these resources in productive sectors by the income tax. He found that major problems in tax collection are tax evasion which should be checked in the practice of income tax and be controlled.

Thapa, Ram Bahadur (1993) has studied Income Tax Assessment Procedure in Nepal. He analyzed income tax in historical perspective, legal provision relating to income tax assessment procedure. Tax authority are ineffective and inefficient in terms of enforcement of laws. Any programs are not integrated to tax payers such as guidance, counselling, education assistance etc. Harassment, corruption, unfair dealings to taxpayers are major problems on tax administration. There are loopholes in tax act for evasion of tax. Tax evasion in Nepal is increasing because of inefficient tax administration in poor morality, lack of incentives to regular taxpayers etc.

Bhandari, Hari Bahadur (1994) studied contribution of income tax to economic development of Nepal. In his study he has concluded that poor tax paying habit

of Nepalese, poor tax administration widespread evasion etc. are the main reasons which affect on revenue collection. He has also studied the income tax and its structure, trend of income tax collection and share and contribution of income tax to the development of Nepalese economy. He suggested for decreasing to decrease the tax evasion on tax administration should be quite effective, morality should be increase, incentives should provide to regular tax-payers etc.

Shakya, Krishna Kumar (1995), studied the income tax in tax structure in Nepal. In his study, he has examined the pattern of existing income tax structure of Nepal with view on its collection and its mobilization of development perspective. He focused in limited factors for Nepalese income tax is low as per capital income extensive subsistence economy, relatively closed economy, weak export position etc. Main reasons of growing income tax evasion are undefined and unclear taxation process, lack of punishment to the evader, low tax paying capacity and non-response of taxpayer, lack of effective tax administration, lack of scientific method of tax collection etc.

Bhattraai, Raj Kumar (1997) has presented dissertation to T.U. entitled, "Effectiveness of corporate income tax in Nepal". He has described the history of income tax and corporate income tax, legal provisions relating to income tax, administration aspects of income tax, tax structure and government mechanism. He has found that the government policies, acts, rules and regulations concerned with the corporate income tax were not effective for increasing tax-paying habit in Nepal. There has been substantial contribution of corporate income tax in the revenue of Nepal since a long period.

Poudyal, K.B. (1998) had submitted a Ph. D. thesis entitled, “Corporate Tax Planning in Nepal”. This thesis report was aimed to examine the implications of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He had found that majority (90%) of the companies in sample size of the study considered tax factors while selecting the limit of business. He also found the positive correlation (+0.8) between tax rate. Similarly, the correlation coefficient between average fixed assets and corporate tax was (+0.75) in large company and (+0.12) in medium size companies. As against this, in large companies, there was a negative correlation (-0.2), which showed that increase in fixed assets in large companies resulted in decrease in the corporate tax. He addressed that the tax planning should be considered while making corporate planning and so company should set up separate tax section to get maximum benefit of provisions, provided by tax law. However, tax assessment under best judgement blocked the application of tax planning in corporate planning. He had recommended that tax incentives should be given to non-industrial companies too, and tax rate should be differentiated of resident and non-resident companies.

Kandel, Puspa Raj (2000), also presented the Ph.D. thesis entitled, “Corporate Tax System and Investment Behaviour in Nepal”. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of the private investment. The main objective of the his study were to evaluate the corporate tax system in general, to examine the sensitivity certain policy like inflation, capital gain tax, dividend tax and interest tax etc. best on their impact on tax burden. He showed the relationship of private investment with average effective tax rate, marginal effective tax rate and tax incentives in Nepal. He found that it’s for debt financed project are almost negative i.e. -17%

and positive for equity financed project and debt equity project by 27% and 19% respectively. He had also found the impact of inflation. According to him, the statutory tax rate deduction had impact on private investment by 60% to 20%. In this regard, he had showed the adjusted value 0.87 at 5% level of significance. He had concluded that the statutory tax rate was in moderate level under the financing options: mix in equity i.e. it was not much destructive. The relationship between inflation rate and effective tax burden in Nepal was negative.

Shrestha, Binita (2001) studied on “Revenue collection from Income Tax in Nepal : Problems and Prospects”. According to her, Nepal is facing various problems in revenue collection and analyzed the effectiveness of income tax collection policy. She recommended measures for improvement of income tax law and management in Nepal. Major problems are tax coverage mass poverty of Nepalese people, lack of conscious taxpayers, inefficient tax administration, instability in government policy etc.

Singh, B. K. (2002) presented a dissertation of problems facing by the taxpayers and their desire and attitude towards Nepalese tax system. He found that tax administrators making black money through best judgement for income tax assessment and saving their tax. He recommends that best appropriate and reliable methods for computing the tax is self-assessment by taxpayers by submitting the basis of account. Major problems for tax collection are tax assessment process which is often delayed in Nepal by lack of relevant information to the taxpayers, not extreme effort by the administration to manage income tax etc. Delays for tax assessment are ineffective and inefficient tax personnel, no effective tax provision of penalty and reward system for tax-

payers, delays in revenue tribunal decision study are based on income tax Act 1974.

Koirala, Girija Prasad (2004) has studied entitled, “Contribution of Employment Income to Income tax revenue in Nepal”. He focused his study mainly on the income from employment and found problems in collecting revenue which are ; complicated rules and regulations of income tax, negligence of tax administrators, mental pinch, unnecessary delays and harassment for getting tax clearance certificate, not well responses etc. He recommended that resources mobilization through direct taxation. TDS helps to increase income tax share in tax and direct tax revenue providing knowledge to employees about taxation there should be standard deduction such as transport expenses, house rent, education expenses etc. For allowed exemption limit on individual and couple, behaviour make to collect more tax revenue from employees.

Shakya, Dharma Raj (2004) has conducted the thesis entitled, “A study on Income Tax Act 2002”. His finding in the thesis are income is one of the most important source of government revenue taking third position for raising government revenue. Mainly, there are direct and indirect tax among them, custom duty and value added tax takes first and second position respectively in national revenue. He recommends that major problems should be omitted in working area. He indicates major problems as lack of education, lack of information, lack of ethics etc. He has recommends some major things for controlling tax evasion, which are update accounting, enforcement of penalties and reward, proper auditing and investigation. He also suggests that pollution control cost (PPC) should be fully deductible if PPC is concerned for human-being.

Ghimire, Durga Prasad (2004) has conducted a research entitled, “Income tax in Nepal and contribution from public enterprises to government revenue”. He has analyzed about the structure of income tax from public enterprises to government revenue. He has presented the data of the contribution of tax and non-tax revenue in total revenue of the Nepal from the Fiscal year 1982/83 to 2001/02. He has examined the administrative aspect and the problems of revenue collection from income tax in Nepal. He suggested the political influences in tax administration should be avoided to get the satisfactory contribution in the government revenue for public enterprises.

Lamsal, Parmeshwor (2005) has also presented 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. As his main objective was to analyze the impact of income tax evasion in government revenue of Nepal, he set further objectives which were to identify the ways and causes 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 in utilizing the resources in Nepal. Mr. Lamsal conducted that research following analytical as well as descriptive research design. Most of the data were from the secondary sources and some 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 for analyzing data whereas different tools, graphs, charts and tables were use to interpret visually the finding of the research.

From that research, he had concluded that there was widespread evasion of income tax in Nepal and income tax is a suitable means for rising domestic resources. He has recommended for controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evaders, compulsory maintenance of accounts etc.

Adhikari, Krishna (2008) has presented a dissertation entitled, “Effectiveness of Income Tax in Nepal”. In the study he examines the effectiveness of income tax reform in Nepal in 2002 analyzing the need of tax reform with the examples of international tax reform efforts in other developing countries with their impact on the government revenue. In the structure of government revenue, indirect tax has dominant power. But in the direct tax revenue, income tax has played this role. Contribution of corporate tax is higher percentage on total income tax revenue i.e. 49.5 percent in 2005/06 whereas percentage from individual is 38.85 in the same year. It has proved that corporate tax is major source to collect revenue in the head of income tax. He has mentioned that effective tax system can play a vital role for the economic development of Nepal. But, current income tax system have been made more burdening to the middle and lower status people and least to higher status. The entrepreneurs aren't aware toward incentives for providing business enterprises. Existing system of incentive to special industry in remote area is vain. New effective incentive system with strategic vision of economic growth is required to replace this system. In last, he suggests in tactical and strategic way for making sound and effective income tax system in Nepal.

2.3 Research Gap

All the research studies mentioned above are concerned with the study of laws, provisions, administrative aspects and structure of tax. Most of them have indicated inefficiency of tax administration, small coverage of taxation, widespread of tax evasion, and unsystematic tax planning and recommend some suggestions on their study. But, for the economic development of a country, industry plays a vital role. Facilities provided to special industries are important for the regional development and to be independent in the basic products. Facilities provided by the act should be measured as these are effective for the industrialization of the country or not.

We found only one study in the field of this study entitled ‘special provision to manufacturing industries under ITA 2002’. This study has made analysis of the provisions related to the whole manufacturing industry. But it does not mention about the impact of these provisions on manufacturing industry. So this study has been undertaken analytically and intensively to analyze the impact of provisions made in ITA 2002 for the special industry and the change in pattern of revenue collection after the enforcement of this act.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is the systematic way to solve the research problem in other words research methodology describes the methods and process applied in the entire aspects of the study. It may be understood as a science of studying how research is done scientifically. It helps to analyze, examine and interpret various aspects of research work. This chapter is concerned with a detailed discussion of the methodology used in this study by covering the procedure of getting research problems answered as per the objectives.

3.1 Research Design

Research design is the sketch of examination. It is the configuration and strategy about how to conduct the research. It is a methodological arrangement of all conditions for collection and analysis of data which provides relevancy in research purpose. "Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance" (Karlinger, 1986: 215).

In this research primary as well as secondary data are used. Questionnaires are used for primary data whereas for secondary data publications and reports. Hence, analytical as well as descriptive research design are used for research purpose.

3.2 Population and Sample

The term population for research means all the member of the research study in which the reseach is based. Here, the population of the study is all of tax-experts, tax-payers and tax-administrators. Out of them, 25 of tax-exprerts, 25 of tax-payers and 25 of tax-administrators have been requested to fill up the questionnaire for this and 20 of each has been used as sample size. The total respondents have been divided into three different groups. The group of respondents and sample size has been shown in the following table:

Table 3.1: Groups of Respondents and Sample Size

Serial Number	Group of Respondents	Sample Size
1	Tax-experts	20
2	Tax-payers	20
3	Tax-administrators	20
Total		60

3.3 Sampling Procedure

Random sampling methods have been used to select the target and sample population. Tax-experts, tax-payers and tax-administrators have been selected on the basis of stratified random sampling.

3.4 Nature and Sources of Data

To obtain the empirical solution with factional analysis primary and secondary data were taken into consideration for finding reliable result. The sources of data which are used in this study can be grouped in the following ways:

3.4.1 Primary Sources of Data

Primary sources of data are essential to find answer of qualitative query that can not find out by secondary data. Especially, sources were classified into three categories, that are mentioned clearly in above table 3.1. Primary data have been collected through a schedule of self structured questionnaires and informal dialogues with selected respondents of different groups.

3.4.2 Secondary Sources of Data

Books, journals, newspapers, reports, dissertations research and working papers were regarded to obtain secondary data that requires for analytical and logical presentation of data.

1. Annual Reports and Other Published Reports of IRD, Ministry of Finance, Nepal Government.
2. Economic survey and Budget Speech of Ministry of Finance ,Nepal Government.
3. Published Document of Nepal Rastra Bank and other's articles and journals.

Data Collection Procedure

Except secondary data for collecting primary information from real source, a set of questionnaire was designed and distributed to respondent group. Personal presence was been focused for the distribution task with considering face to face

appearance to real parties could help to understand attitude and perception of them toward research requirement.

Table 3.2: Questionnaire Distribution, Collection and Sample Size

S. N.	Respondents	No. of Questionnaire distributed	No.of Questionnaire Collected	Sample Size
1	Tax-experts	25	25	20
2	Tax-payers	25	25	20
3	Tax-administrators	25	25	20
Total		75	75	60

Data Processing and Analysis

Undoubtedly it is the heart of overall research work. Through realizing the data after gathering, appropriate and suitable presentation are made in the frame of table, chart and figure and diagram with according to the nature of data. Then statistical tools and models are used to give empirical picture of data.

3.5.1 Tools of Analysis

Informations collected through questionnaire are in row form. To meet the objective of the study, they are classified and tabulated, as it is required. The following statistical tools are used for analysis:

➤ **Mean:**

Mean of a set of observations is the sum of all the observations divided by the number of observations. It is denoted by \bar{x} and is calculated as:

$$\bar{x} = \frac{\sum x}{N}$$

Where, N is no. of observations.

➤ **Median:**

The median refers to the middle value in a distribution. The median divides the whole observations into two halves, one half comprising all the values greater and the second half, all values less than median. It is the positional average. It is denoted by M_d and computed as:

$$M_d = \frac{N+1}{2}$$

Where, N = no. of observations (in individual series)

N = Total frequency (in discrete series)

➤ **Rank Correlation:**

The degree of relationship between two variables with respect to their respective rank is known as Rank Correlation Coefficient. The value of rank correlation coefficient lies between +1 and -1. It is denoted by R and is calculated as:

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

Where, $d = R_1 - R_2$

$n =$ no. of pairs of observations.

R_1 & R_2 be the rank of n individuals according to the characteristics say A & B respectively.

➤ **Chi-square test:**

Chi-square of a set of observation is the sum of the square of deviations of observed frequency and expected frequency divided by expected frequency. The quantity of Chi-square describe the magnitude of the discrepancy between theory and observations. It is denoted by χ^2 and calculated as:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where, $O =$ Observed frequency

$E =$ Expected frequency

In general, the expected frequency for any cell can be calculated from the following equation.

$$E = \frac{RT \times CT}{GT}$$

Where, $RT =$ The row total for the row containing the cell.

$CT =$ The column total for the column containing the cell.

$GT =$ The total number of observations.

➤ **Paired t-test for Difference of Means**

In the t-test for difference of means, the two samples were independent to each other. There are many situation where the samples are pairly dependnt to each other.

For testing hypothesis based on secondary data t-test is used.

$$t = \frac{\bar{d}}{\sqrt{\frac{S^2}{n}}}$$

Where, $\bar{d} = \frac{\sum d}{n}$ = Mean of difference

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

d = X-Y = difference between set of observations

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

Through keeping view of indispensable nature of qualitative and quantitative data for finding empirical result of quantity based research study, this chapter has mentioned of including data into table and group with systematic analysis. In this chapter efforts has been exerted to stretch internal source of government revenue which is the way to the mobilization of internal resources - tax revenue data of different instruments (i.e. direct and indirect) have been focused to showing of the ten years to find the result of marginal efficiency and productivity of tax structure in Nepal.

4.1 Secondary Data Analysis

In this chapter secondary data indicate the data belong to pre-published by other departments (i.e. IRD, NRB, World Bank etc.) for their purposes. In this research topic, most of the data from IRD and economic surveys of published by Ministry of Finance, Nepal Government in different years were taken to analyze the tax structure of Nepal and contribution of income tax to total revenue , tax revenue and direct tax revenue . Secondary data are essentially for finding efficiency of tax structure and proportion of its components on tax revenue, because the subject of taxation is very vague it touch every angle of economic activities conducted in the society. However, every country has separate department to function about tax collection with reliability and credibility.

4.1.1 Revenue structure of Nepal

Taxation is the major sources of revenue in the country besides non-tax revenue. Strong taxation indicate higher revenue that is dominant nature of developed countries where growth economic activities can be measured their revenue collection capacity, which is required for public spending. Among the developing countries, Nepal also has exerted her full effort for sustaining fiscal stability through using taxation efficiently. It collects tax revenue from direct and indirect instruments.

In the table 4.1, there is presenting overall sketch of revenue structure of Nepal, by using of ten years data. Which indicates that tax and non-tax revenue are the major sources out of that tax is the dominant source for generation of revenue i.e. during ten years (1997/98 to 2006/07) tax sources have not contributed less than 75% on total revenue and on average of ten years data, contribution of tax revenue on total revenue is 78.14%. Tax revenue comprises both direct tax revenue and indirect tax revenue. Non-tax revenue (departmental enterprises, administrative charges, fees, dividend and interest, forest revenue, mining and others) contributes average of 21.86% to total government revenue. After the period of 2002/03 there is seemed slightly improvement into occupy higher percentage on tax revenue (i.e. 75.74%, 77.29%, 77.18%, 79.45% and 81.09%) in the year 2002/03 and thereafter.

In the indirect tax, Custom duty, Excise duty and VAT are the major instruments of Nepalese tax structure. Likewise other developing countries Nepalese tax structure also as dominated by indirect taxation in the revenue structure.

Table 4.1: Composition of Revenue Structure in Nepal

(Amount Rs in Million)

Years	1997/98		1998/99		1999/2000		2000/01		2001/02		2002/03		2003/04		2004/05		2005/06		2006/07	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
Tot. Rev.	32938	100	37251	100	42893	100	48891	100	50446	100	56229	100	62331	100	70158	100	72183	100	87719	100
NTR	6998	21.25	8498	22.81	9742	22.71	10029	20.51	11115	22.03	13643	24.26	14158	22.71	16018	22.82	14852	20.55	16590	18.91
Tax Rev.	25940	78.75	28753	77.19	33151	77.29	38862	79.49	39331	77.97	42586	75.74	48173	77.29	54104	77.18	57431	79.45	71129	81.09
Ind.TR	19752	59.97	21237	57.01	24200	56.42	28704	58.71	28733	56.96	32481	57.77	36261	58.17	41033	58.46	43463	60.13	52147	59.45
Custom	8502	25.81	9518	25.55	10813	25.21	12551	25.67	12659	25.09	14236	25.32	15555	24.96	15702	22.37	15344	21.23	16708	19.05
Excise	2886	8.76	2953	7.93	3128	7.29	3771	7.71	3807	7.55	4785	8.51	6227	9.99	6446	9.18	6508	9.00	9343	10.65
VAT	8364	25.40	8766	23.53	10259	23.92	12382	25.33	12267	24.32	13460	23.94	14479	23.22	18885	26.91	21611	29.90	26096	29.75
D.T.R	6188	18.78	7516	20.18	8951	20.87	10158	20.78	10589	20.99	10105	17.97	11912	19.12	13071	18.62	13968	19.32	18982	21.64
Inc. Tax	4898	14.87	6170	16.56	7420	17.30	9113	18.64	8904	17.65	7966	14.17	9245	14.83	10159	14.47	10374	14.35	15034	17.14
Cor. Tax	2243	6.81	2681	7.20	3538	8.25	4852	9.92	3181	6.31	2487	4.42	3588	5.76	3800	5.41	3600	4.98	6737	7.68
Ind. Tax	2121	6.44	2773	7.44	3016	7.03	3200	6.55	4419	8.76	3362	5.98	3533	5.67	3926	5.59	4235	5.86	5234	5.97
R.Tax	322	0.98	397	1.07	452	1.05	597	1.22	836	1.66	1253	2.23	1391	2.23	1676	2.39	1764	2.44	2008	2.29
Int. Tax	212	0.64	319	0.85	414	0.97	464	0.95	468	0.92	864	1.54	733	1.17	757	1.08	775	1.07	1055	1.20
LRR	1004	3.04	1003	2.70	1016	2.37	612	1.26	1132	2.23	1414	2.51	1698	2.74	1799	2.56	2181	3.02	2255	2.57
PT & others	286	0.87	343	0.92	515	1.20	433	0.98	562	1.11	725	1.29	969	1.55	1113	1.59	1413	1.95	1693	1.93

Sources: Year Books of IRD (2002/03 & 2006/07) and Economic survey (2003 & 2007).

Where,

Tot. Rev = Total Revenue,

Ind. TR = Indirect Tax Revenue

Inc. Tax = Income Tax

Ind. Tax = Individual Tax

Int. Tax = Interest Tax

LRR = Land Revenue and Registration Tax.

NTR = Non Tax Revenue

D.T.R. = Direct Tax Revenue

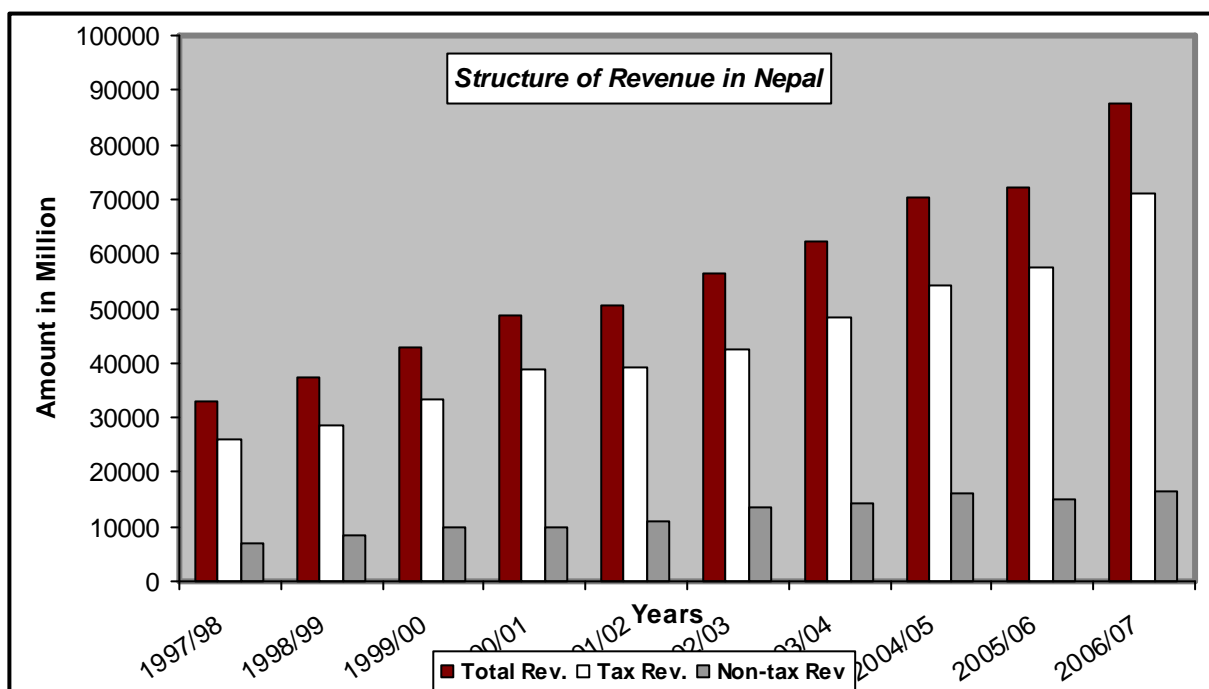
Cor. Tax = Corporate Tax

R. Tax = Remuneration Tax

PT = Property Tax

Through the analysis of 10 years data in table, its contribution in total revenue of 60.13% is the highest in year 2005/06 and minimum of 56.42% in year 1999/2000. Accounting average for the study period is 58.31% that is more than half portion of revenue structure. The contribution of tax revenue and non-tax revenue in total revenue is shown in figure 4.1.

Fig: 4.1: Sturcture of Revenue in Nepal



From the above figure, total revenue is increasing every year and tax revenue has dominant role in increasing total revenue. Non tax revenue is increasing but slowly. The contribution of tax revenue in total revenue is 78.14% and contribution of non tax revenue in total revenue is 21.86% in 10 years average. It indicates that the increment in total revenue is caused by the increment in tax revenue is more powerful.

4.1.2 Tax Structure and Its Performance

The process of domestic resource mobilization for development in Nepal has so far mainly depended on taxation an effective instrument for this propose. The principal function of taxation lies in raising the volume of public savings to be used for capital formation. Experience has revealed that the developing countries have given more emphasis on the role of taxation as an instrument of resource mobilization in early stages of their development. Its other role as an instrument of income distribution and maintenance of economic stability has been given subordinate importance. Recognizing the strategic importance of their revenue the government of many developing countries have sought to increase the proportion of national income collected in taxes. Because it is so significant in the option of many economists and institution interested in economic development that the ratio of tax revenue to GDP is treaded as one of the most important criteria for measuring and judging a country's economic performance. So, developing countries are under no that they can or should push their tax ratios in of 10 to 15 percent of national income to 30 to 40 percent levels as it is reached in developed countries. Because, even a modest increase in taxation may be able to finance a large percentage increase in government contribution to the development programmes.

In the light of the above discussion, it is appropriate to look into the performance of Nepalese tax structure during the period 1997/98 to 2006/07. The revenue of tax policy has been assessed in terms of tax-GDP ratio, incremental tax-GDP ratio.

4.1.2.1 Efforts of Taxation: Tax-GDP ratio

During the period of 1997/98 to 2006/07, tax percentage on GDP is 8.95%, 8.71%, 9.05%, 9.40%, 9.14%, 9.25%, 9.62%, 9.86%, 9.38% and 10.53% respectively and its average for the study period is 9.39 which is represented in table 4.2. Further the table shows that contribution of tax proportion in to GDP has been below 10% for the first 9 years but it exceeds at tenth year. Absorbing trend indicate that there is not big fluctuation in proportion and it is raising. The rising position of tax-GDP ratio indicates to the rising contribution of tax on GDP.

For determining the performance of indirect tax through occupying percentage proportion on GDP. It seems to be ups and downs in the percentage of indirect tax on GDP before 2001/02 but after this it seems to improving in later period i.e. 2002/03, 2003/04, 2004/05 and 2006/07 when percentage are 7.06, 7.24, 7.48 and 7.72 but there is slightly falldown in percentage in year 2005/06. The average percentage of indirect tax on GDP is 7.10 for the ten years study period. In the trend position of indirect tax to GDP ratio is increasing. The components of indirect tax are Custom, Excise and VAT which contribution in tax revenue is shown in table 4.1. where VAT has dominant source of indirect tax in last year and second source is custom duty. They averagely contribute on total indirect tax by 43.90% and 41.27% respectively.

Similarly, another instrument of taxation, direct tax contributes very small proportion than indirect tax. Direct tax is collected directly form the tax-payers on whom tax is imposed formally and he/she is liable to pay such amounts. The average contribution of indirect tax on Gross Domestic Product (GDP) is 7.01

Table 4.2: Composition of Tax Efforts or GDP Ratio in Nepal

(Amount Rs in Million)

Years		1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Total tax Revenue		25940	28753	33151	38862	39331	42586	48173	54104	57331
GDP		289798	330018	366251	413429	430397	460325	500699	548485	611089
Percentage to GDP										
Indirect Tax	Amount	19752	21237	24200	28704	28733	32481	36281	41033	43363
	%	6.82	6.44	6.61	6.94	6.68	7.06	7.24	7.48	7.10
Direct Tax	Amount	6188	7516	9851	10158	10589	10105	11912	13071	13968
	%	2.13	2.27	2.44	2.46	2.46	2.19	2.38	2.38	2.28
Total Tax Percentage on GDP		8.95	8.71	9.05	9.40	9.14	9.25	9.62	9.86	9.38
Marginal Rate		7.49	6.99	12.14	12.09	2.76	10.88	13.84	12.14	5.15

Sources: Yearly Books of IRD (2002/03 & 2006/07) and Economic survey (2003 & 2007)

percentage whereas direct tax contributes averagely 2.38%. Until 2001/02 covering percentage has been increased i.e. 2.13, 2.27, 2.44, 2.46, and 2.46 in the period 1997/98, 1998/99, 1999/2000, 2000/01 and 2001/02 respectively. Than after there is very small fluctuation happening in the contribution. The components of direct tax are Income tax, Land Revenue and Registration tax and Property tax and others which are shown in table 4.1.

4.1.2.2 Marginal Rate

Furthermore to determine the performance of tax structure average rate only not enough so marginal efficiency rate is essential, which gives figure of percentage of performance of additional revenue on total revenue with the respect of additional GDP. Symbolically, it can be designed as $\frac{TR}{GDP}$. Accounting of that higher marginal rate with comparison of previous year is regarded as effective. Therefore, marginal rate test the effectiveness of tax structure for collection of revenue.

In the table 4.2, marginal rate of Nepalese tax system shows very fluctuating overall period of the history. During the 10 years, marginal rate is very high in 2006/07 indicate that contribution by tax revenue is 21.43 percentage with respect of change in GDP, which is effective to with compare to next period. And in the period of 2001/02 marginal rate is very low i.e. 2.76 that consist tax revenue only generate 2.76 percentage on marginal amount of GDP which convey poor performance of tax system. Even though it is assumption, that tax system shown effective which marginal rate is contineously increasing trend, in developing countries it is rare to get.

Hypothesis

H₀ : There is no significant difference in marginal income tax rate on GDP before and after the period of income tax reform in 2002.

H₁ : There is significant difference in marginal income tax rate on GDP before and after the period of income tax reform in 2002.

(Sample has taken 10 years that means 5 years before and after 2002.)

Table 4.3 : Calculation of Sample Mean (\bar{X}) and Sample Variance (S^2)

X ₁	X ₂	d = (X ₁ – X ₂)	d ²
7.49	10.88	- 3.39	11.4921
6.99	13.84	- 6.85	46.9225
12.14	12.14	0	0
12.09	5.15	6.94	48.1636
2.76	21.43	- 18.67	348.5689
		$\phi d = - 21.97$	$\phi d^2 = 455.1471$

Note : X₁ = Marginal rate before income tax reform in 2002.
 X₂ = Marginal rate after income tax reform in 2002.

We have formula,
$$t = \frac{\bar{d}}{\sqrt{\frac{S^2}{n}}}$$

Where,
$$\bar{d} = \frac{\phi d}{n} = \frac{-21.97}{5} = -4.394$$

$$S^2 = \frac{1}{n} \sum \phi d^2 = \frac{455.1471}{5} = 91.0294$$

$$\begin{aligned}
&= \frac{1}{5} \frac{455.1471 \times (21.97)^2}{5} \\
&= \frac{1}{5} \times 455.1471 \times 96.5362 \\
&= 89.6527
\end{aligned}$$

Now, We get ;
$$t = \frac{4.394}{\sqrt{\frac{89.6527}{5}}}$$

$$= 1.0377$$

Degree of freedom = n - 1 = 5 - 1 = 4

Tabulated value of t at 5% significant level = 2.776

Since Calculated value is less than tabulated value, null hypothesis (H0) is accepted that means there is no significant difference in marginal income tax rate on GDP before and after the period of income tax reform in 2002. In other words, there is no effectiveness of income tax reform in 2002.

4.1.3 Structure of Indirect Tax

Having the already analysis of indirect tax structure in term of contribution to total revenue in table 4.1 and performance by GDP in table 4.2, but in this table there is going to deal about the structure of indirect tax with its components. The main components of indirect tax are Custom duty, VAT and Excise duty and their contribution in total indirect tax is shown in figure 4.4.

All the amounts are in increasing in trend but percentage covered by Custom duty, VAT and Excise duty is fluctuating in different years. Out of Indirect tax,

more portion is covered by VAT and its portion is increasing every year except in year 200/01, 2001/02 and 2002/03. Percentage of VAT on total indirect tax is 42.35, 41.28, 42.39, 43.13, 42.69, 41.44, 39.93, 46.02, 49.73 and 50.04 starting from 1997/97 to 2006/07 respectively. And second major component of indirect tax is Custom duty but its portion is in decreasing trend since 2003/04 and onward. The percentage of custom duty is 43.04, 44.82, 44.68, 43.73, 44.06, 43.83, 42.90, 38.27, 35.30 and 32.04 starting from 1997/98 to 2006/07 respectively. And next component of indirect tax is Excise duty. It is averagely in increasing trend.

Table 4.4: Structure of Indirect tax in Nepal

(Amount Rs in Million)

Fiscal Years	Custom Duty		Excise Duty		VAT		Total	
	Amt.	%	Amt	%	Amt	%	Amt	%
1997/98	8502	43.04	2886	14.61	8364	42.35	19752	100
1998/99	9518	44.82	2953	13.90	8766	41.28	21237	100
1999/00	10813	44.68	3128	12.93	10259	42.39	24200	100
2000/01	12551	43.73	3771	13.14	12382	43.13	28704	100
2001/02	12659	44.06	3807	13.25	12267	42.69	28733	100
2002/03	14236	43.83	4785	14.73	13460	41.44	32481	100
2003/04	15555	42.90	6227	17.17	14479	39.93	36261	100
2004/05	15702	38.27	6446	15.71	18885	46.02	41033	100
2005/06	15344	35.30	6508	14.97	21611	49.73	43463	100
2006/07	16708	32.04	9343	17.92	26096	50.04	52147	100
Average	-	41.27	-	14.83	-	43.90	-	100

Sources : Yearly Books of IRD 2002/03 & 2006/07 and Economic Survey 2003 and 2007

The percentage of excise duty is 14.61, 13.90, 12.93, 13.14, 13.25, 14.73, 17.17, 15.71, 14.97 and 17.92 starting from 1997/98 to 2006/07 respectively. It is increasing in trend but very slowly. Average contribution of excise duty on indirect tax is 14.83%.

Figure 4.2 : Structure of Indirect Tax in Nepal

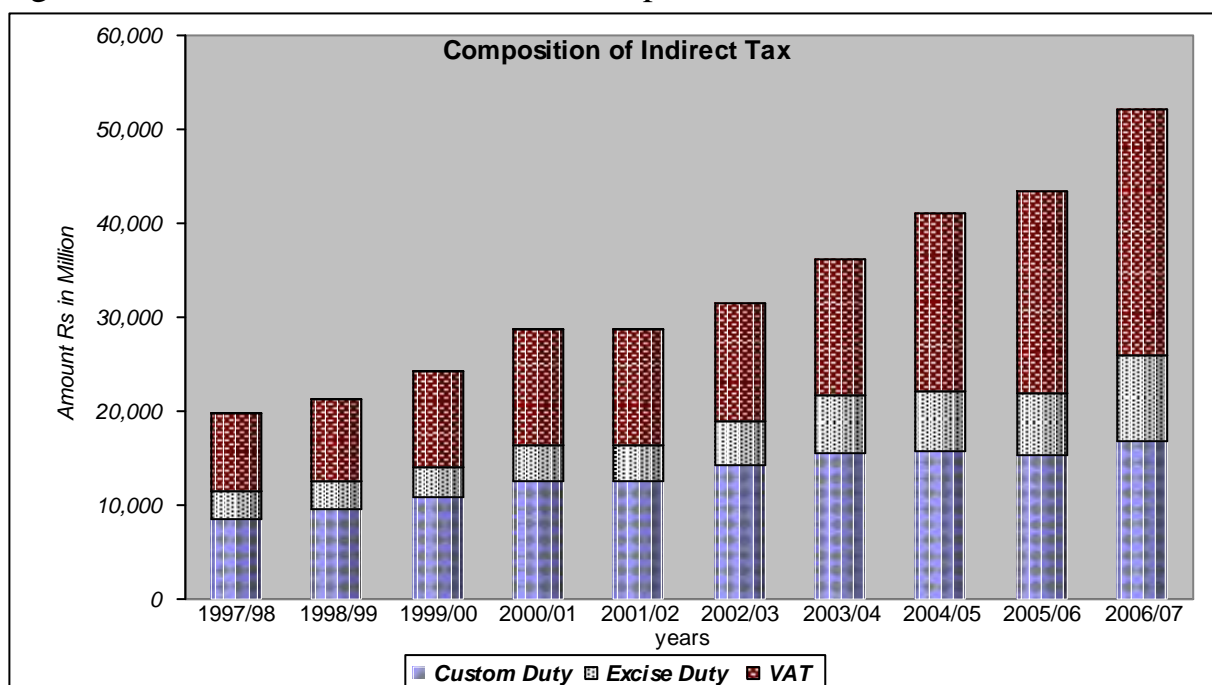
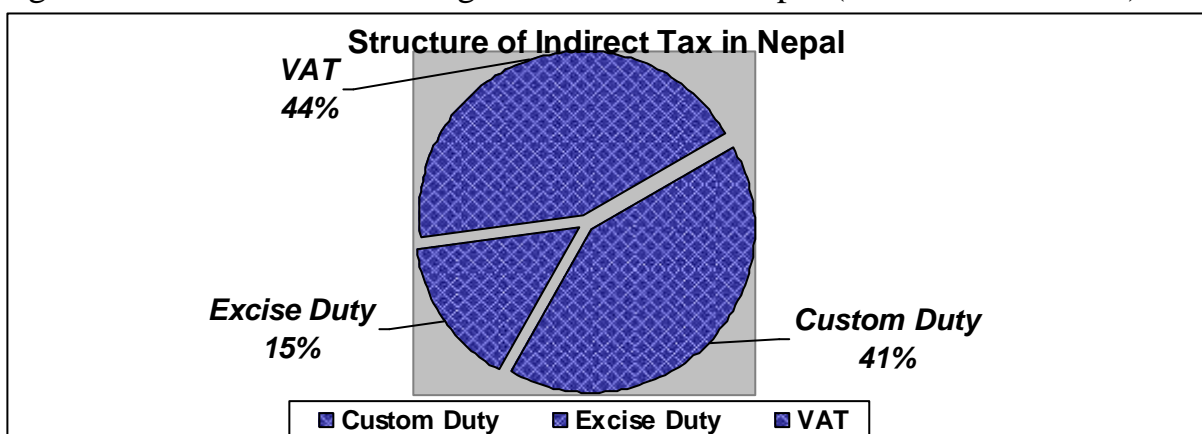


Figure 4.2 clearly shows that indirect tax is increasing in total where custom duty and excise duty are increasing slightly but VAT is increasing rapidly. The increment in total indirect tax is caused by the more increase in VAT. Thus it can be said that VAT has been played dominant role in increasing indirect tax amount.

In the table 4.4 average percentage of Custom duty, Excise duty and VAT is presented. That average is taken for the period of 10 years. In the figure, It shows that custom duty covers 41.27% whereas excise duty covers 14.83% and

Figure 4.3 : Structure of Average Indirect Tax in Nepal (1997/98 to 2006/07)



VAT covers 43.90%. It has also presented in the Pie chart. In the above pie chart it is clearly seen that VAT is the major source of indirect tax which covers 44% of indirect tax revenue whereas custom duty and excise duty covers 41% and 15% respectively.

4.1.4 Structure of Direct Tax in Nepal

Direct tax is that tax where tax is actually paid by the person on whom it is imposed formally. Every country collects revenue to meet its regular and development activities from direct as well as indirect ways. Nepal Government also collect revenue from direct tax. Components of direct tax revenue are income tax, land revenue and registration tax and property tax and others. Average contribution of direct tax on total revenue and tax revenue is 17.66% and 22.60% respectively. Income tax is the major source of direct tax. It covers

Table 4.5 : Structure of Direct Tax in Nepal

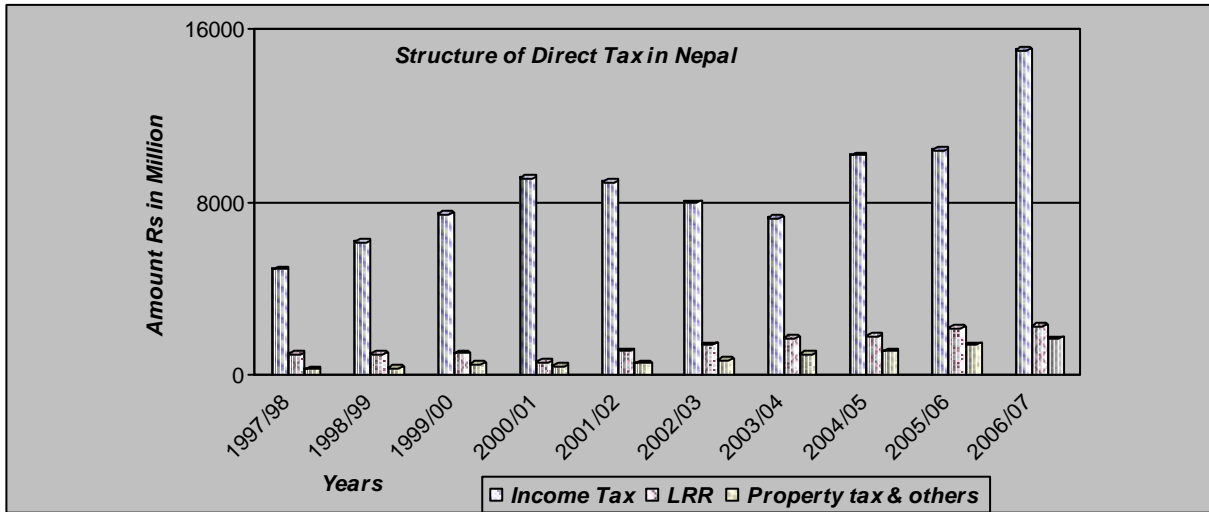
(Amount in Million)

Fiscal year	Income Tax		LRR		PT & Others		Total	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1997/98	4898	79.15	1004	16.22	286	4.63	6188	100
1998/99	6170	82.09	1003	13.34	343	4.57	7516	100
1999/00	7420	82.90	1016	11.35	515	7.75	8951	100
2000/01	9113	89.71	612	6.02	433	4.27	10158	100
2001/02	8904	84.09	1132	10.69	562	5.32	10589	100
2002/03	7966	78.83	1414	13.99	725	7.18	10105	100
2003/04	9245	77.61	1698	14.25	969	8.14	11912	100
2004/05	10159	77.72	1799	13.76	1113	8.52	13071	100
2005/06	10374	74.27	2181	15.61	1413	10.12	13968	100
2006/07	15034	79.20	2255	11.88	1693	8.92	18982	100
Average	-	80.56	-	12.61	-	6.63	-	100

Sources : Yearly Books of IRD 2002/03 & 2006/07 and
Economic Survey 2003 and 2007

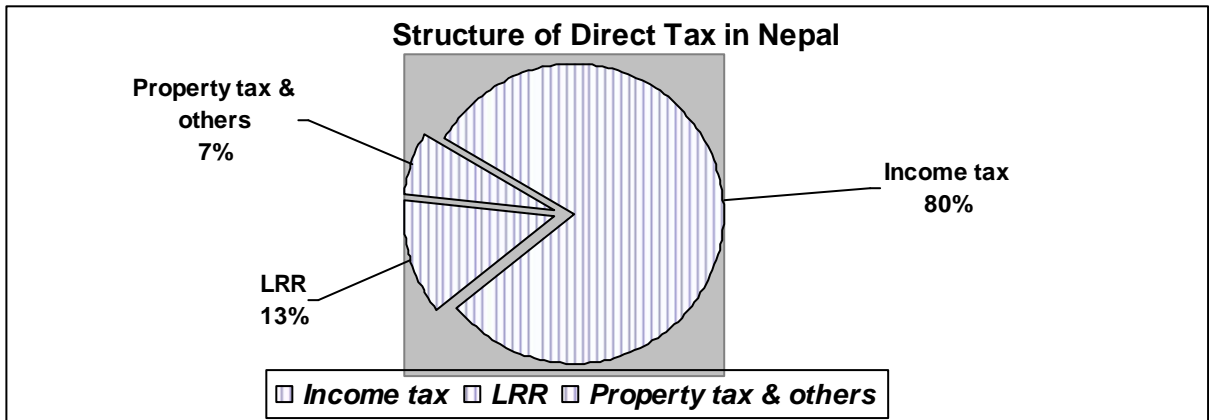
averagely 80.56% on total direct tax. Income tax includes corporate tax, individual tax remuneration tax, and interest tax. The percentage of income tax on direct tax is 79.15, 82.09, 82.90, 89.71, 84.09, 78.83, 77.61, 77.72, 74.27 and 79.80 starting from 1997/98 to 2006/07 respectively. Second source of direct tax is Land Revenue and Remmuneration (LRR) tax. It is collected from using and taking the ownership of land. Its average contribution on direct is 12.61%. The percentage of LRR tax on direct tax is 16.22, 13.34, 11.35, 6.02, 10.69, 13.99, 14.25, 13.76, 15.61, and 11.88 starting from 1997/98 to 2006/07 respectively. And next source of direct tax is Property tax ant others. This tax revenue is collected from using the property by the person mainly from vehicle tax, and tax

Figure 4.4: Composition of Direct Tax in Nepal



collected from other sources. Its average contribution on direct tax revenue is 6.63%. The percentage of property tax and others on direct tax revenue is 4.63, 4.57, 7.75, 4.27, 5.32, 7.18, 8.14, 8.52, 10.12 and 8.92 starting from 1997/98 to 2006/07 respectively. Income tax is dominant in direct tax. For the 10 year period from 1997/98 to 2006/07 average 80.56% is covered by the income tax and LRR covers 12.61% and property tax and others covers 6.63 %. This average composition of direct tax can be shown in Pie chart

Figure 4.5 : Structure of Average Direct Taxation in Nepal (1997/98 - 2006/07)



4.1.4 Structure of Income Tax in Nepal

Income tax is regarded as important instrument of direct taxation. In Nepal, income tax structure includes four sources for collecting tax revenue which are corporate tax, individual tax, remuneration tax, house and land rent tax and interest tax. With realizing complexity for collection tax from income sources in developing countries, every government timely reform their income tax acts for exploiting potential sources. In Nepal, efforts has also been made to make more responsive to ITA 2002 was the latest overhaul tax act in income taxation. Therefor, in this topic the components of income tax and their proportions are analyzed and tabulated.

Table 4.6 : Structure of Income Tax in Nepal

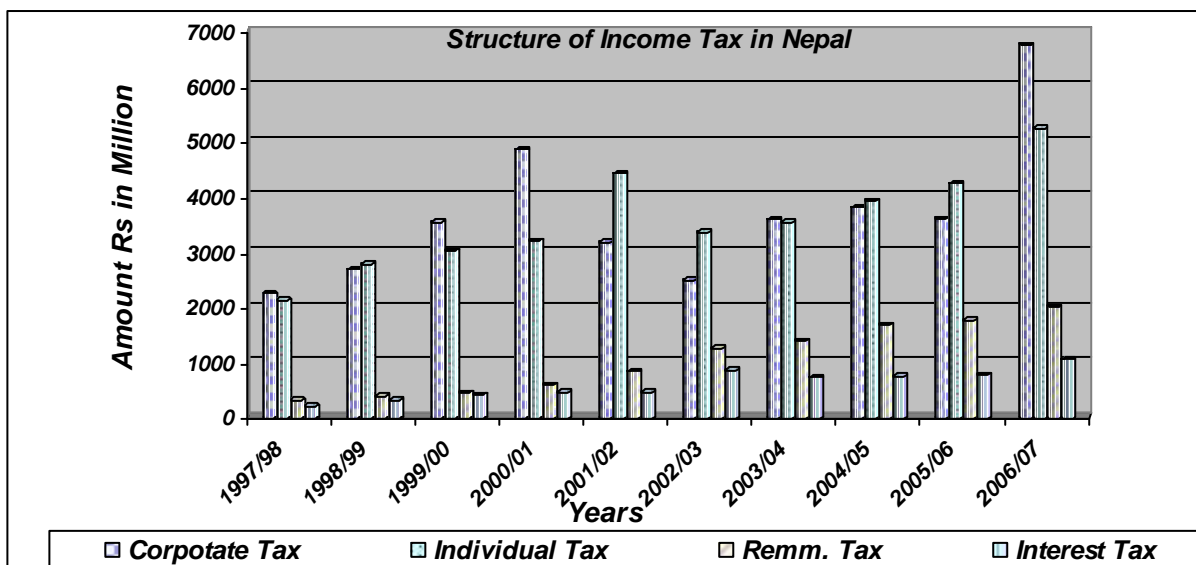
(Amount in Million)

Fiscal Year	Corp. Tax		Ind. Tax		Rem. Tax		Int. Tax		Total	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1997/98	2243	45.79	2121	43.30	322	6.57	212	4.34	4898	100
1998/99	2681	43.45	2773	44.94	397	6.43	319	5.18	6170	100
1999/00	3538	47.68	3016	40.65	452	6.09	414	5.58	7420	100
2000/01	4852	53.24	3200	35.11	597	6.55	464	5.10	9113	100
2001/02	3181	35.73	4419	49.63	836	9.39	468	5.25	8904	100
2002/03	2487	31.22	3362	42.20	1253	15.73	864	10.85	7966	100
2003/04	3588	38.81	3533	38.22	1391	15.05	733	7.92	9245	100
2004/05	3800	37.41	3926	38.65	1676	16.50	757	7.44	10159	100
2005/06	3600	34.70	4235	40.82	1764	17.00	775	7.48	10374	100
2006/07	6737	44.81	5234	34.81	2008	13.36	1055	7.02	15034	100
Average	-	41.28	-	40.83	-	11.27	-	6.62	-	100

Sources : Yearly Books of IRD 2002/03 & 2006/07 and Economic Survey 2003 and 2007

Corporate tax seems as dominant source of contribution of income tax. This reality picture has been matched with empirical finding if World Bank, that in developing and least developed countries corporate tax is more responsible than the individual (Newbery, 1990). It covers maximum 53.24% on income tax and minimum 31.22% that accounts for average 41.28%. But overall trend shows that proportion is reducing. It indicates two logic first is formal firms are turned into informal sectors for avoiding legal payment that is popular in developing countries, second is other sector also emerging to contribute tax to compete corporate sector. Corporate tax is the sum of government corporate, public limited and private limited companies.

Figure 4.6 : Composition of Income Tax in Nepal

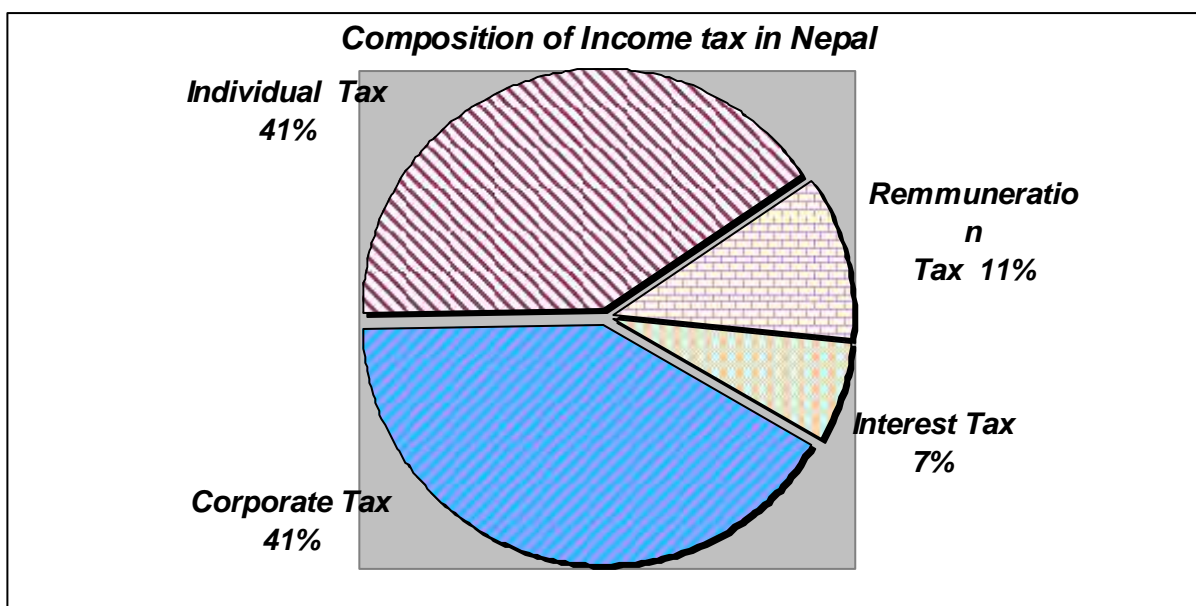


Second strong component of income tax is individual tax. It refers to the tax collection from natural tax-payers. It covers averagely 40.83% on income tax but its portion is fluctuating and downward in trend. The percentage of individual tax is 43.30, 44.94, 40.65, 35.11, 49.63, 42.20, 38.22, 38.65, 40.82

and 34.81 starting from 1997/98 to 2006/07 respectively. The high portion of individual tax refers to the trend of taking of self-investment small business. Remmuneration tax covers averagely 11.27% on income tax revenue. Its trend is increasing. Tax deduction at source (TDS) has helped to increase the portion of remmuneration tax. Interest tax covers average 6.62% on income tax. It is in increasing trend. The percentage of interest tax is 4.63, 4.57, 7.75, 4.27, 5.32, 7.18, 8.14, 8.52, 10.12 and 8.92 starting from 1997/98 to 2006/07 respectively.

Average contribution of income tax on total revenue and tax revenue is 15.70% and 20.09% respectively. Contibution of corporate tax, individual tax, remmuneration tax and interest tax on income tax for the average of 10 year period starting from 1997/98 to 2006/07 is 41.28%, 40.83%, 11.27%, and 6.62% respectively which is presented in the following Pie chart to make more clear in its composition.

Figure 4.7: Structure of Average Income Tax in Nepal (1997/98 to 2006/07)



4.2 Primary Data Analysis

For providing reliability of this paper finding, efforts of collecting primary data has been done through questionnaire technique as well as face to face interact approach to few respondents. Due to not available secondary data to obtain purposed objectives (like effectiveness of provisions for special industries) primary data give more valid shape to the research paper.

In this chapter data available from different technique has been presented into qualitative and quantitative term. For those tax experts, tax administrators and tax-payers were sampled to obtain information by spreading questionnaire. Out of distributing 75 questionnaire to 3 respondent groups (i.e. 25 for each group), all 75 questionnaires and sample size is taken 60 (20 of each group)

Table 4.7: Questionnaire Distributed, Obtained and Sample Size

Respondents	Questionnaire Distributed	Questionnaire Collected	Sample Size
Tax Experts	25	25	20
Tax Payers	25	25	20
Tax Administrator	25	25	20
Total	75	75	60

Sources: Opinion Survey

The questionnaire has focused on facilities on manufacturing industries under ITA 2002, necessity and need of increment in such facilities, impact of ITA 2002 on the manufacturing sector, provision of excess depreciation facility and contribution of income tax on government revenue etc. The questionnaire was either asked for yes/no response or asked for ranking of choice according to

their preference. The first choice was most important and last was least important. The findings of this survey has been analyzed below.

4.2.1 Income Tax as an important source of Government Revenue:

To know the View of respondents whether income tax is an important source of government revenue a question was asked, “Do you think that income tax is an important source of collecting revenue of government ?” The responses found towards the question are tabulated as follows:

Table 4.8 : Income Tax as an Important Source of Government Revenue

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Expert	20	100	0	0	20	100
Tax Payers	20	100	0	0	20	100
Tax Administrators	19	95	1	5	20	100
Total	59	98	1	2	60	100

Sources: Opinion Survey 2008

Form this opinion survey , it has found that cent percent tax experts and tax-payers and 95% of tax administrators are in favour of the income tax is an important source of government revenue. Only 5% tax administrators are not agreed with this view. In total 98% of respondents have supported this view and only 2% were not supported this view.

From this, conclusion makes that income tax is one of the important source of government revenue.

4.2.2 Contribution of Special Provisions to Increase the Government Revenue:

To know the view of Respondents whether the special facilities has helped in collecting revenue more or not, a question is asked “In your opinion, Provision for special industry under ITA 2002 has helped to increase the government revenue.” The responses are presented in the following table 4.9.

Table 4.9 : Contribution of Special Provisions to increase Govt. revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	14	70	6	30	20	100
Tax Payers	17	85	3	15	20	100
Tax Adiministrators	16	80	4	20	20	100
Total	47	78	13	22	20	100

Sources: Opinion Survey 2008

From the opinion survey, it is found that 70% of the tax-experts, 85% of the tax-payers and 80% of the tax administrators are in favour of this view. Only 30% of the tax-experts, 15% of the tax-payers and 20% of the tax-administrators are not agree with this view. In total 78% were supported in this view and only 22% has not supported to this view.

After this another question was asked, “How does the special provisions help to increase the government revenue.” They are requested for ranking on their preferences. The responses of Respondents are presented in the table 4.8.

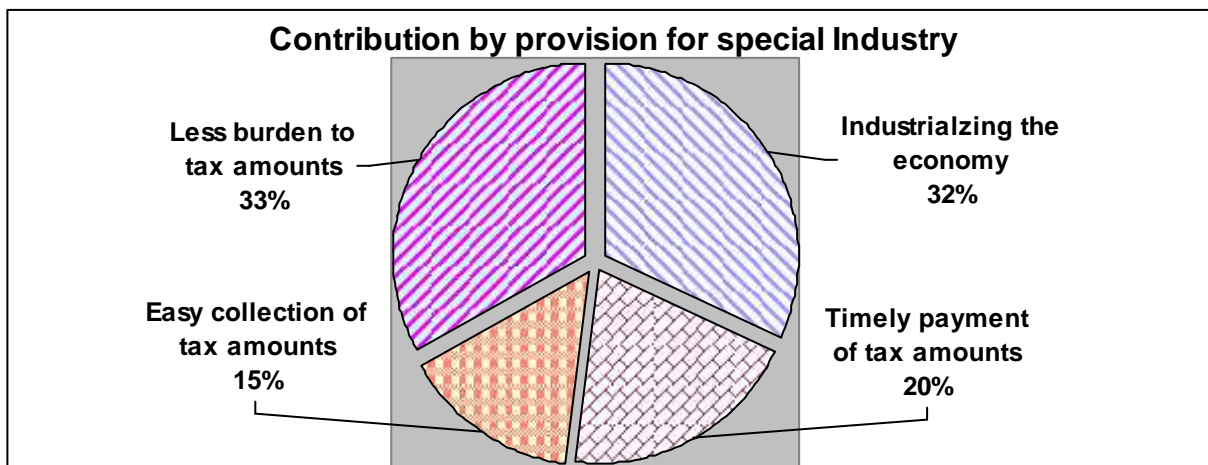
Table 4.10 : Opinion of Respondents for How Provision for Special industry increase Govt. revenue

Respondents	Tax Experts						Tax Payers						1
	1	2	3	4	Points	Rank	1	2	3	4	Points	Rank	
Option													
Industrializing the Economy	12	8	-	-	71	1	8	7	5	-	63	1	6
Timely Payment of Tax amount	4	-	10	6	36	3	4	3	8	5	46	3	1
Easy Collection of Tax amount	-	-	6	14	26	4	-	4	2	14	30	4	1
Less Burden to Tax amount	4	12	4	-	64	2	8	6	5	1	61	2	12
Total	20	20	20	20	198	-	20	20	20	20	200	-	20

Sources: Opinion Survey 2008

From the table 4.10, Tax experts has viewed that provision for special industry has helped to Industrializing the economy, Less burden to tax amounts, Timely payment of tax amounts and Easy collection of tax amounts providing 72, 64, 36 and 26 points respectively. The view of tax experts and tax payers is same in rank but tax payers provide 63, 61, 46 and 30 points on Industrializing the economy, Less burden to tax amounts, Timely payment of tax amounts and Easy collection of tax amounts respectively. Tax administrators has provide different rank than tax experts and tax payers. They have provided 72, 56, 36 and 34 points on Less burden to tax amounts, Industrializing the economy, Timely payment of tax amounts and Easy collection of tax amounts.

Figure 4.8 : Level of Contribution by Provision for Special Industry



Through the analysis of people opinion in the figure, the percentage of people of responded that provision of special industries under ITA 2002 has helped to increase the government revenue 33% by Less burden to tax amounts, 32% by Industrializing the economy, 20% by Timely payment of tax amounts and 15% by Easy collection of tax amounts. So, in total rank has been provided to Less burden to tax amounts, Industrializing the economy, Timely payment of tax and Easy collection of tax amounts 1 to 4 respectively.

4.2.3 Proportion of Tax Revenue to Government Revenue

To know the view of respondents whether the proportion of tax revenue on government revenue is satisfactory or not, a question is asked, “Do you think that proportion of tax revenue on government revenue is satisfactory?” The responses of respondents is presented below.

Table 4.11 : Proportion of Tax revenue on Government revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	8	40	12	60	20	100
Tax Payers	5	25	15	75	20	100
Tax Administrators	12	60	8	40	20	100
Total	25	42	35	58	60	100

Sources: Opinion Survey 2008

From the opinion survey, it is found that 40% of tax-experts, 25% of tax-payers and 60% of tax-administrators are satisfy with the proportion of tax revenue to government revenue. The respondents has commented that proportion of tax revenue on government revenue is satisfactory (i.e. almost 80%) but in total amount and internal composition of components of tax revenue is not satisfactory. 60% of the tax experts, 75% of the tax-payers and 40% of tax-administrators are not satisfy with the proportion of the tax revenue on government revenue. They have ranked the causes of being unsatisfactory proportion which is tabulated in table 4.12.

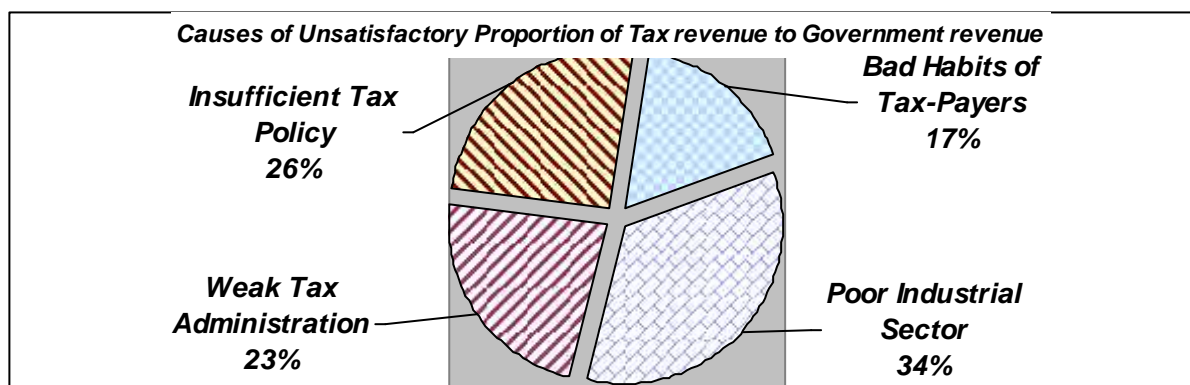
Table 4.12 : Proportion of tax revenue on Government revenue

Respondents	Tax Experts		Tax Payers		Tax Administrators	
	T. Points	Rank	T. Points	Rank	T. Points	Rank
Poor Industrial Sector	43	1	50	1	28	1
Weak Tax Administration	22	3	42	2	16	4
Insufficient Tax Policy	34	2	37	3	19	2
Bad Habits of Tax-payers	21	4	21	4	17	3
Total	120	-	150	-	80	-

Sources: Opinion Survey 2008

From table 4.12 tax experts are ranked Poor industrial sector, Insufficient tax policy, Weak tax administration and Bad habits of tax-payers for 1, 2, 3 and 4 respectively where as tax-payers 1 for poor industrial sector, 2 for weak tax administration, 3 for insufficient tax policy and 4 for bad habits fo tax-payers. And tax administrators ranked 1 for poor industrial sector, 2 for weak tax administration, 3 for bad habits of tax-payers and 4 for weak tax administration. In total, tax-experts, tax-payers and tax administrators have provided total 121 points on poor industrial sector, 90 points of insufficient tax policy, 80 points on weak tax administration and 59 points on bad habits of tax-payers. This total points of ranking alternatives can be shown in Pie chart.

Figure 4.9 : Causes of Unsatisfactory Proportion of Tax revenue to Government Revenue



4.2.4 : Necessity of Special Facility to Manufacturing Industries

To know the view of respondents whether it is needed that special facilities to manufacturing industries or not, a question was asked, “Are the special facilities needed to manufacturing industries?”. The opinion is summarized in the table 4.13.

Table 4.13 : Need of special facility to Manufacturing Industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	19	95	1	5	20	100
Tax-payers	20	100	0	0	20	100
Tax-administrators	17	85	3	15	20	100
Total	56	93	4	7	60	100

Sources: Opinion Survey 2008.

Hypothesis

H_0 : There is no significant difference of people opinion towards the need of special facilities to manufacturing industries.

H_1 : There is significant difference of people opinion towards the need of special facilities to manufacturing.

Table 4.14 : Computation of Expected Frequency undre Chi-square (χ^2) test :

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) ²	$\frac{(O-E)^2}{E}$
19	18.67	0.33	0.1089	0.0058
1	1.33	-0.33	0.1089	0.0819
20	18.67	1.33	1.7689	0.0947
0	1.33	-1.33	1.7689	1.33
17	18.67	-1.67	2.7889	0.1494
3	1.33	1.67	2.7889	2.0969
$\phi \frac{(O-E)^2}{E} =$				3.7587

Note : $E = \frac{(RT \times CT)}{GT}$

Calculated Frequency = $\phi \frac{(O-E)^2}{E} = 3.7587$

Degree of Freedom = (c-1) (r-1) - 1 = (2-1) (3-1) - 1 = 1

Tabulated value of χ^2 at 5% significance level = 3.841

Since calculated value is less than tabulated value, null hypothesis is accepted that means people opinion in not significant difference to the need of special facilities to manufacturing industries.

From this opinion survey, it has been found that 95% of tax-experts, 100% of tax-payers and 85% of tax-administrators have supported the view of need of special facilities to manufacturing industries. Only 5% of tax-experts and 15%

of tax-administrators have not supported to this view. In total, 93% of respondents have realise the need of special facility to manufacturing industries. After this, an additional question was asked to the respondents to rank the options who had answered yes, why the special facilities are nedded? Their responses are tabulated in table 4.15.

Table 4.15 : Opinion on Need of Special Facility to Manufacturing Industries

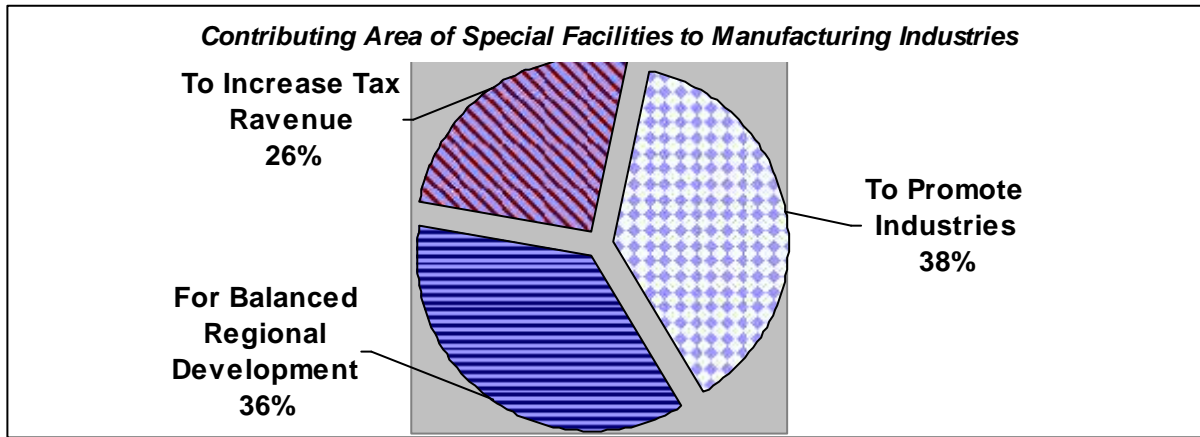
Respondents	Tax-experts		Tax-payers		Tax-administrators	
	T. P.	Rank	T.P.	Rank	T. P.	Rank
To Increase Tax Revenue	27	3	27	3	32	3
To Promote Industries	47	1	45	2	36	1
For Balanced Regional development	40	2	48	1	34	2
Total	114	-	120	-	102	-

Sources: Opinion Survey 2008.

From this opinion survey, tax-experts and tax-administrators have ranked the same options with vary in total points. Tax-experts have ranked 1 for to promote industries, 2 for balanced regional development and 3 for to increase tax revenue providing 47, 40 and 27 total points respectively. Tax-payers have ranked 1 for balanced regional development, 2 for to promote industries and 3 for to increase tax revenue with 48, 45 and 27 total points respectively. And tax-administrators have ranked 1 for to promote industries, 2 for balanced regional development and 3 for to increase tax revenue with 36, 34 and 32 total points respectively.

In total, three options, to promote industries, for balanced regional development and to increase tax revenue has provided 128, 122 and 86 total points respectively. This indicates the weight of special facilities to manufacturing industries in which sector it contributes. It also presented in th following Pie chart.

Figure 4.10 : Weight of Contributing Area of Special Facility to Manufacturing Industries



4.2.5 Implementation of Special Facilities to Manufacturing Industries

Provisions for special industries is meaningful only when it is implemented effectively. The effective implementation of such provisions is affected by various causes. So, to know the view of respondents, how effectively such provisions are implemented, question was asked, “Are the special facilities provided by ITA 2002 is implemented effectively effectively in manufacturing industries?” The opinion of respondents is summarized in table 4.16

Table 4.16 : Implementation of Special Facilities in Manufacturing Industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	7	35	13	65	20	100
Tax-payers	5	25	15	75	20	100
Tax-administrators	8	40	12	60	20	100
Total	20	33	40	67	60	100

Sources: Opinion Survey 2008.

This opinion survey says that 35% of tax-experts, 25% of tax-payers and 40% of tax-administrators have viewed to the effective implementation of special facilities. But 65% of tax-experts, 75% of tax-payers and 60% of tax-administrators are viewed against the effective implementation of special facilities. In total, two-third of the respondents are viewed against the effective implementation of special facilities. Another question was asked along with that question to whom viewed against the effective implementation of special facilities. That was to rank the causes of not implementing the such facilities. The result of respondents is summarized in table 4.17.

Table 4.17 : Causes of not Implementing Special Facilities

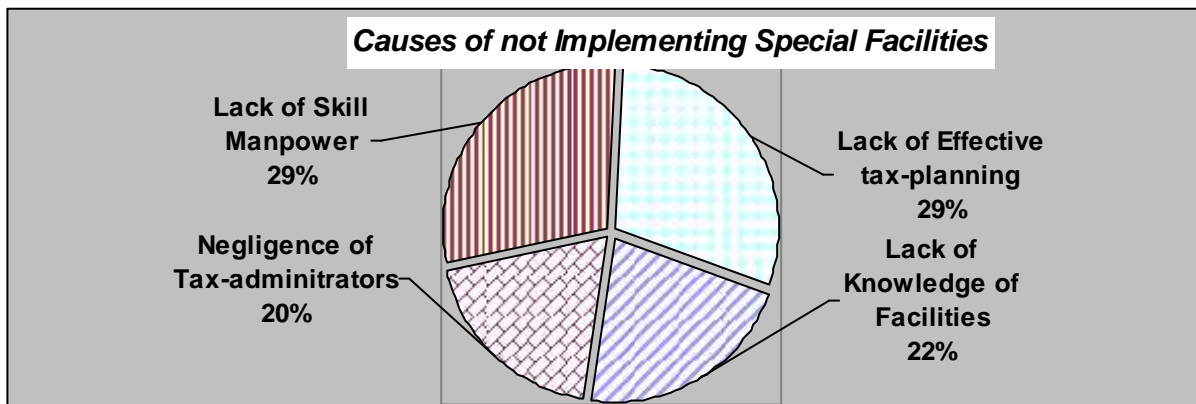
Respondents	Tax-experts		Tax-payers		Tax-administrators	
	T. Points	Rank	T. Points	Rank	T. Points	Rank
Lack of Knowledge of Facilities	25	3	32	3	28	3
Negligence of Tax administration	23	4	31	4	23	4
Lack of Skill Manpower	37	2	42	1	35	1
Lack of Effective Tax-planning	45	1	38	2	34	2
Total	130	-	143	-	120	-

Sources: Opinion Survey 2008.

From this opinion survey, tax-experts ranked 1 for lack of effective tax-planning, 2 for lack of skill manpower, 3 for lack of knowledge of facilities and

4 for negligence of tax-administrators with 45, 37, 25 and 23 points respectively. Tax-payers ranked 1 for lack of skill manpower, 2 for lack of effective tax-planning, 3 for lack of knowledge of facilities and 4 for negligence of tax administrators with 42, 38, 32 and 31 points respectively. Tax-administrators ranked 1 for lack of skill manpower, 2 for lack of effective tax-planning, 3 for lack of knowledge of facilities and 4 for negligence of tax-administrators. In total, lack of skill manpower, lack of effective tax planning, lack of knowledge of facilities and negligence of tax-administrators have provided 114, 117, 85 and 77 points respectively. It is also presented in Pie chart in the following figure.

Figure 4.11 : Weight for Causes of not implementing Special Facilities



Hypothesis

H_0 : There is no significant difference of people opinion towards the causes of not effective implementation of special facilities in manufacturing industries.

H_1 : There is significant difference of people opinion towards ti causes of not effective implementation of special facilities in manufacturing industries.

Table 4.18 : Calculation of Rank Correlation

d_1	d_2	d_3	$d_{12} = d_1 - d_2$	$d_{13} = d_1 - d_3$	$d_{23} = d_2 - d_3$	d_{12}^2	d_{13}^2	d_{23}^2
3	3	3	0	0	0	0	0	0
4	4	4	0	0	0	0	0	0
2	1	1	1	1	0	1	1	0
1	2	2	-1	-1	0	1	1	0
						$\phi d_{12}^2 = 2$	$\phi d_{13}^2 = 2$	$\phi d_{23}^2 = 0$

Note : d_1 = Rank of tax-experts opinion.

d_2 = Rank of tax-payers opinion.

d_3 = Rank of tax-administrators opinion.

We have formula;
$$R = 1 - \frac{6\phi d^2}{n(n^2 - 1)}$$

Rank correlation between Tax-experts and Tax-payers (R_{12}) =
$$1 - \frac{6\phi d_{12}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 2}{4(4^2 - 1)} = 0.8$$

Rank Correlation between Tax-experts and Tax-administrators,

$$R_{13} = 1 - \frac{6\phi d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 2}{4(4^2 - 1)}$$

$$= 0.8$$

Rank Correlation between Tax-payers and Tax-administrators,

$$R_{23} = 1 - \frac{6\phi d_{23}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 0}{4(4^2 - 1)} = 1$$

Since the rank correlation between Tax-experts, Tax-payers and Tax-administrators is highly positive correlation towards the causes of not effective implementation of special facilities to manufacturing industries. These causes should be avoided on the basis of overall weight by the all respondents.

4.2.6 Impact of ITA 2002 on Special Industries

To know the view of respondents towards the impact of ITA 2002 on special industries, a question was asked, “Is there positive impact of ITA 2002 on special industries?” the view of respondents are summarized in the table 4.19.

Table 4.19 : Opinion on Positive Impact of ITA 2002 on Special Industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	14	70	6	30	20	100
Tax-payers	17	85	3	15	20	100
Tax-administrators	12	60	8	40	20	100
Total	43	72	17	28	60	100

Sources: Opinion Survey 2008.

From this opinion survey, it is found that 70% of tax-experts, 85% of tax-payers and tax-administrators have supported the view of positive impact of ITA 2002 on special industries whereas 30% of tax-experts, 15% of tax-payers and 40% of tax-administrators have not supported the view of positive impact of ITA 2002 on special industries. In total 72% of the respondents support this view.

After this another question is asked to the respondents who have supported the view of positive impact of ITA 2002 on special industries, to rank the options how does it affect. The result of respondents are summarized in the table 4.20.

From this opinion survey of Table 4.20, tax-experts ranked 1 for timely registration and renewal of industries, 2 for timely reporting and payment of tax, 3 for increment in the number of industries and 4 for increment in the volume of industries with 42, 41, 31 and 26 total points respectively. Tax-payers ranked 1 for timely registration and renewal of industries, 2 for timely reporting and payment of tax, 3 for increment in the number of industries and 4 for increment in the volume in of industries with 50, 47, 40 and 33 total points respectively. Tax-administrators ranked 1 for increment in the number of industries , 2 for increment in the volume of industries, 3 for timely registration and renewal of industries and 4 for timely reporting and payment of tax with 33, 32, 28 and 27 total points respectively.

Table 4.20 : Area of affecting on Special Industries by ITA 2002

Respondents	Tax-experts		Tax-payers	
	Total Points	Rank	Total Points	Rank
Increment in the no. Industries	31	3	40	3
Increment in the volume of Industries	26	4	33	4
Timely Registration and Renewal of Industries	42	1	50	1
Timely Reporting and Payment of Tax	41	2	47	2
Total	139	-	170	-

Sources: Opinion Survey 2008.

Hypothesis

H_0 : There is no significant difference of people opinion on the area of affecting by ITA 2002 on special industries.

H_1 : There is significant difference of people opinion on the area of affecting by ITA 2002 on special industries.

Table 4.21 : Calculation of Rank Correlation

d_1	d_2	d_3	$d_{12} = d_1 - d_2$	$d_{13} = d_1 - d_3$	$d_{23} = d_2 - d_3$	d_{12}^2	d_{13}^2	d_{23}^2
3	3	1	0	2	2	0	4	4
4	4	2	0	2	2	0	4	4
1	1	3	0	-2	-2	0	4	4
2	2	4	0	-2	-2	0	4	4
Total						0	16	16

Note : d_1 = Rank of tax-experts opinion. d_2 = Rank of tax-payers opinion.

d_3 = Rank of tax-administrators opinion.

We have Formula: $R = 1 - \frac{6\phi d^2}{n(n^2 - 1)}$

Rank Correlation between Tax-experts and Tax-payers, (R_{12}) = $1 - \frac{6\phi d_{12}^2}{n(n^2 - 1)}$

$$= 1 - \frac{6 \times 0}{4(4^2 - 1)}$$

$$= 1$$

Rank Correlation between Tax-experts and Tax-administrators,

$$R_{13} = 1 - \frac{6\phi d_{13}^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 16}{4(4^2 - 1)} = -0.6$$

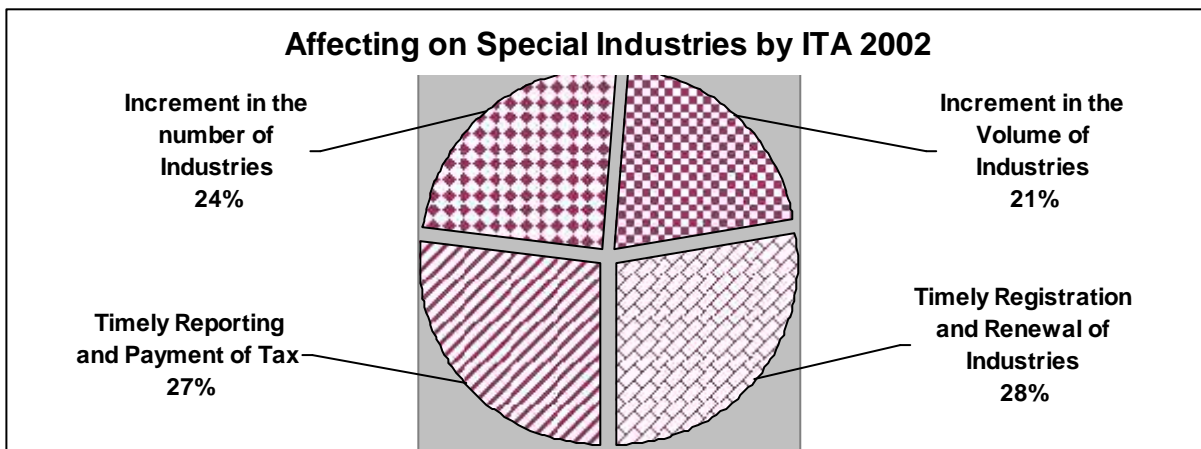
Rank Correlation between Tax-payers and Tax-administrators,

$$\begin{aligned}
 R_{23} &= 1 - \frac{6\phi d_{23}^2}{n(n^2 - 1)} \\
 &= 1 - \frac{6 \times 16}{4(4^2 - 1)} \\
 &= -0.6
 \end{aligned}$$

Since the rank correlation between tax-experts and tax-payers is perfectly positive. But correlation between tax-experts and tax-administrators and tax-payers and tax-administrators is negative. Thus, tax-administrators viewed different from tax-experts and tax-payers. So, it is necessary to rank the area affecting by ITA 2002 on special industry.

In total timely registration and renewal of industries, timely reporting and payment of tax, increment in number of industries and increment in the volume of industries get 120, 115, 104 and 91 points respectively. It shows the rank of area affecting by ITA 2002 on special industries. It is shown in the following figure .

Figure 4.12 : Area of affecting on Special Industries by ITA 2002



4.2.7 Classification of Area to Provide Rebate for Tax Purpose

ITA 2002 has provided rebate of 30%, 25% and 20% of applicable tax rate for special industries established in highly undeveloped, undeveloped and underdeveloped zone respectively for tax purpose. To know the view of respondents, does it good to classify area and to provide different rebates, a question is asked, “ITA 2002 has provide rebate of 30%, 25% and 20% of applicable tax rate for the special industries established in highly undeveloped, undeveloped and underdeveloped zone respectively for tax purpose, does it good?” The view of respondents is summarized in the table 4.22.

From this opinion survey, 75% of tax-experts, 65% of tax-payers and 80% of tax-administrators are satisfy with this classification zone and rebate rates. But 25% of tax-experts, 35% of tax-payers and 20% of tax-administrators are not satisfy with this classification and rebate rates. In total, 73% of respondents are agree with this view.

Table 4.22 : Opinion on Classification of area and Rebate rate

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	15	75	5	25	20	100
Tax-payers	13	65	7	35	20	100
Tax-administrators	16	80	6	20	20	100
Total	44	73	16	27	60	100

Sources: Opinion Survey 2008.

Hypothesis

H0 : There is no significant difference of people opinion on the classification and rebate rate made by ITA 2002.

H1 : There is significant difference of people opinion on the classification and rebate rate made by ITA 2002.

Table 4.23 Computation of Expected Frequency under Chi-square (χ^2) Test

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) ²	$\frac{(O-E)^2}{E}$
15	14.67	0.33	0.1089	0.0074
5	5.33	-0.33	0.1089	0.0204
13	14.67	- 1.67	2.7889	0.1901
7	5.33	1.67	2.7889	0.5232
16	14.67	1.33	1.7689	0.1206
4	5.33	- 1.33	1.7689	0.3319
			$\frac{(E-ZO)^2}{E}$	1.1936

Note : $E = \frac{(RT \times CT)}{GT}$

Calculated Value of $\chi^2 = \frac{(E-ZO)^2}{E} = 1.1936$

Degree of Freedom = (c-1) (r-1) - 1 = (2-1) (3-1) - 1 = 1

Tabulated Value of χ^2 at 5% significance level = 3.841

Since calculated value is less than tabulated value, null hypothesis is selected that means there is no significant difference of people opinion on the classification and rebate rate made by ITA 2002.

Along with this question, another question was asked to rank the causes why does it need ? The result of respondents is summarized in the Table 4.24.

Table 4.24 : Need of Classification of Zones and Tax rebates

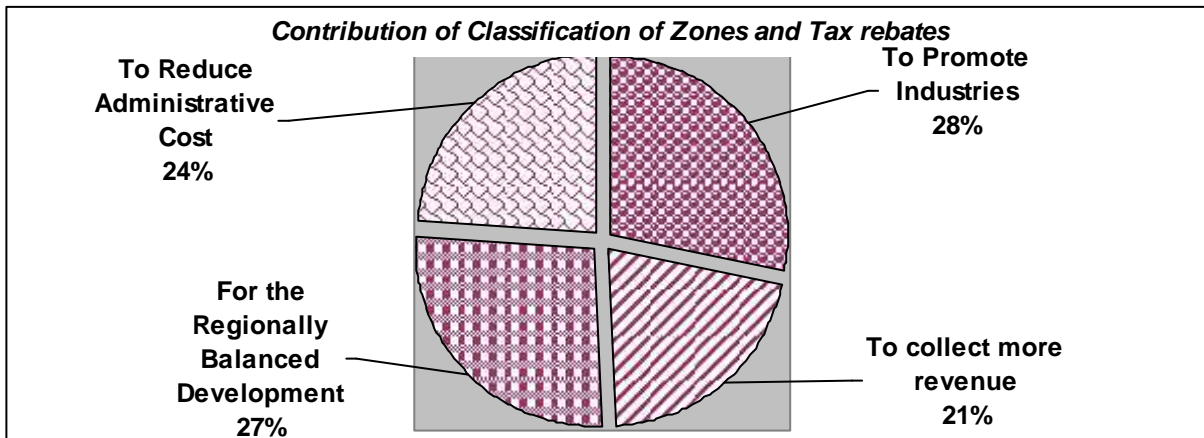
Respondents	Tax-experts		Tax-payers		Tax-administrators	
	T. Points	Rank	T.Points	Rank	T. Points	Rank
To Promote Industries	49	1	34	2	42	2
To Collect More Revenue	26	4	27	4	38	3
For the regionally Balanced Development	44	2	38	1	37	4
To Reduce administrative Cost	31	3	31	3	43	1
Total	150	-	130	-	160	-

Sources: Opinion Survey 2008.

From this opinion survey, tax-experts ranked 1 for to promote industries, 2 for the regionally balanced development, 3 for to reduced administrative costs and 4 for to collect more revenue with 49, 44, 31 and 26 total points respectively. Tax-payers ranked 1 for the regionally balnced development, 2 for to promote industries, 3 for to reduce administrative costs and 4 for to collect more revenue with 38, 34, 31 and 27 total points respectively. Tax-administrators ranked 1 for to reduce administrative cost, 2 for to promote industries, 3 for to collect more revenue and 4 for the regionally balanced development with 43, 42, 38 and 37 total points respectively.

In total, to promote industries, for the regionally balanced development, to reduce administrative cost and to collect more revenue get 125, 119, 105 and 91 total points respectively. The contribution of such rebates can be presented in the follwing Pie chart.

Figure 4.13 : Contribution of Classification of area and Tax rebates



4.2.8 Need of 1/3 Additional Depreciation for Special Industries

ITA 2002 has made provision to allow additional 1/3 depreciation for the special industries operated as an entity. To know the view of respondents whether it should be provided or not, a question was asked, “Should 1/3 additional depreciation be provided to the special industries?” The opinion of respondents is summarized in the table 4.25.

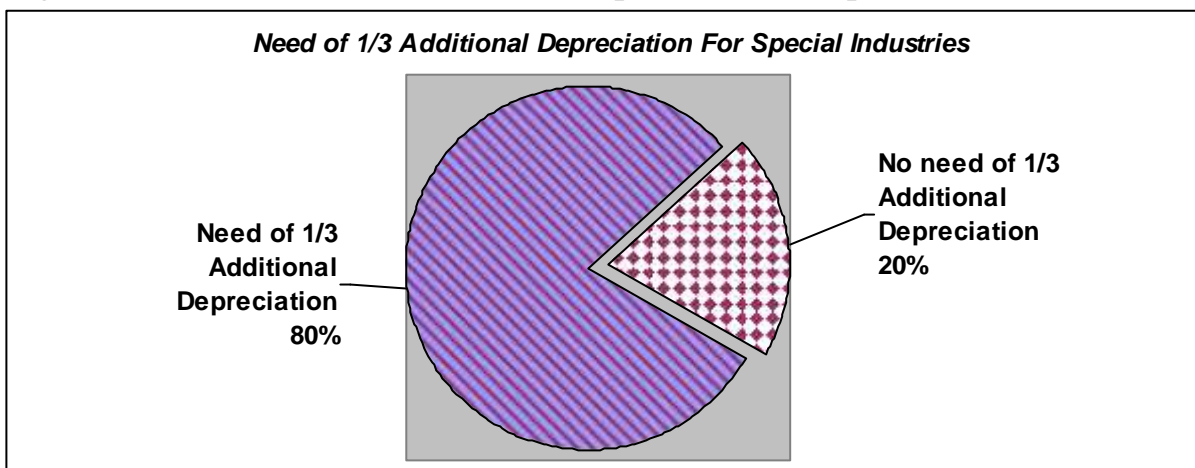
Table 4.25 : Need of 1/3 Additional Depreciation for Special Industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	16	80	4	20	20	100
Tax-payers	19	95	1	5	20	100
Tax-administrators	13	65	7	35	20	100
Total	48	80	12	20	60	100

Sources: Opinion Survey 2008.

From this opinion survey, 80% of tax-experts, 95% of tax-payers and 65% of tax-administrators and in total, 80% of respondents have realise the need of 1/3 additional depreciation to the special industries. But 20% of tax-experts, 5% of tax-payers and 35% of tax-administrators and in total, 20% of respondents have viewed not to need of 1/3 additional depreciation. It is presented in the following Pie chart figure.

Figure 4.14 : Need of 1/3 Additional Depreciation for Special Industries



4.2.9 Need of 1/3 Additional Depreciation to Speical Industries Operated by Natural Person

ITA 2002 does not provide the 1/3 additional depreciation for special industries operated by natural person. To know the view of respondents, does it necessary to provide natural person too or not, a question was asked, “Is it necessary to provide 1/3 additional depreciation to natural person too? The view of respondents is summarized in the table 4.26.

Table 4.26 : Need of 1/3 Additional Depreciation to Natural Person

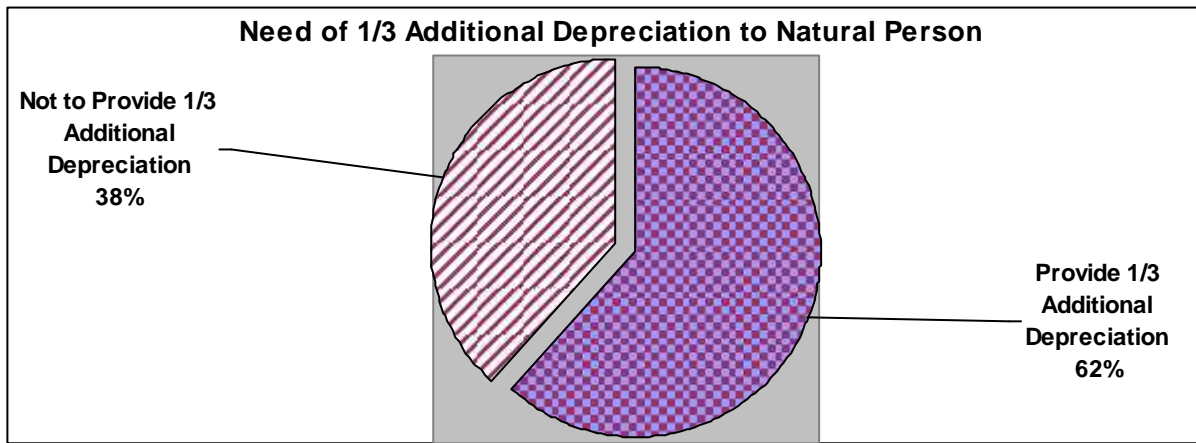
Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	12	60	8	40	20	100
Tax-payers	14	70	6	30	20	100
Tax-administrators	11	55	9	45	20	100
Total	37	62	23	38	60	100

Sources: Opinion Survey 2008.

From this opinion survey, 60% of tax-experts, 70% of tax-payers and 55% of tax-administrators and in total, 62% of respondents viewed to provide 1/3 additional depreciation to natural person and remaining viewed not to provide such facility to special industries operated by natural person. Their argument, who were against the view of providing additional 1/3 depreciation to natural person was it creates confusion on provision and increase the tax avoidance.

The view of respondents on and against the view of providing 1/3 additional depreciation to special industries operated by natural person can be presented in the following figure.

Figure 4.15 Need of 1/3 Additional Depreciation to Special Industries operated by Natural Person



4.2.10 Accountability on Rights and Duties of Tax-payers

To know the view of respondents, how duely industrial tax-payers responding their rights and duties while calculating tax liability, a question was asked, “Are industrial tax-payers responding their rights and duties in calculating tax liabilities?” The response of respondents is presented in the following table 4.27

Table 4.27 : Need of 1/3 Additional Depreciation for Special Industries

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	8	40	12	60	20	100
Tax-payers	13	65	7	35	20	100
Tax-administrators	11	55	9	45	20	100
Total	32	53	28	47	60	100

Sources: Opinion Survey 2008.

From this opinion survey, 40% of tax-experts, 65% of tax-payers and 55% of tax-administrators and in total, 53% of respondents realise industrial tax-payers are responding their rights and duties. But 60% of tax-experts, 35% of tax-payers and 45% of tax-administrators and in total, 47% of respondents realise that industrial tax-payers are not respnding their rights and duties duely.

Hypothesis

H₀ : There is no significant difference of people opinion on responding their rights and duties by industrial tax-payers.

H₁ : There is significant difference of people opinion on responding their rights and duties by industrial tax-payers.

Table 4.28 : Computation of Expected Frequency Under Chi-square (χ^2) Test

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) ²	$\frac{(O - E)^2}{E}$
8	10.67	- 2.67	7.1289	0.6681
12	9.33	2.67	7.1289	0.7641
13	10.67	2.33	5.4289	0.5088
7	9.33	- 2.33	5.4289	0.5819
11	10.67	0.33	0.1089	0.0102
9	9.33	- 0.33	0.1089	0.0117
			$\frac{(E - O)^2}{E}$	2.5448

Note : $E = \frac{(RT \times CT)}{GT}$

Calculated Value of $\chi^2 = \frac{(E - O)^2}{E} = 2.5448$

Degree of Freedom = (c-1) (r-1) - 1 = (2-1) (3-1) - 1 = 1

Tabulated Value of χ^2 at 5% significance level = 3.841

Since calculated value is less than tabulated value, null hypothesis is selected that means there is no significant difference of people opinion on responding their rights and duties by industrial tax-payers.

Alongwith first question, another question was asked to the respondents who were answered 'No' to rank the reasons of not responding their duties duely. The responses of respondents are summarized in the following table 4.29.

Table 4.29: Causes of not Responding their Rights and Duties by Industrial Tax-payers

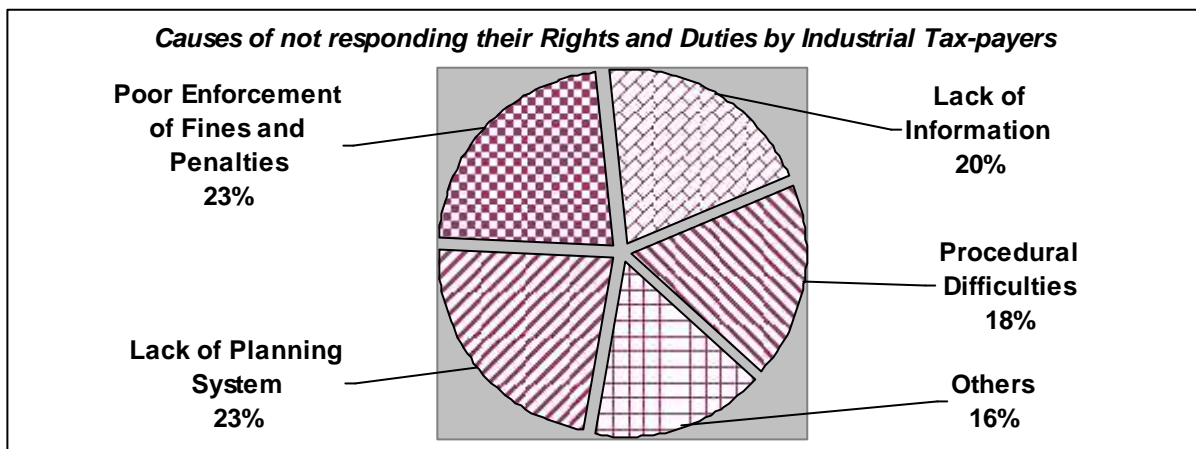
Respondents	Tax-experts		Tax-payers		Tax-administrators	
	T. Points	Rank	T. Points	Rank	T. Points	Rank
Lack of Information	35	3	20	3	23	5
Procedural Difficulties	32	4	19	4	26	4
Lack of Planning System	42	2	26	2	31	1
Poor Enforcement of Fines and Penalties	43	1	27	1	27	3
Others	28	5	13	5	28	2
Total	180	-	105	-	135	-

Sources: Opinion Survey 2008.

Table 4.29 refers to that tax-experts ranked 1 for poor enforcement of fines and penalties, 2 for lack of planning system, 3 for lack of information, 4 for procedural difficulties and 5 for others with total points of 43, 42, 35, 32 and 28 respectively. Tax-payers ranked 1 for poor enforcement of fines and penalties, 2 for lack of planning system, 3 for lack of information, 4 for procedural difficulties and 5 for others with 27, 26, 20, 19 and 13 total points respectively. Tax-administrators ranked 1 for lack of planning system, 2 for others, 3 for poor enforcement of fines and penalties, 4 for procedural difficulties and 5 for lack of information with 31, 28, 27, 26 and 23 total points respectively.

In total, lack of planning system, poor enforcement of fines and penalties, lack of information, procedural difficulties and others get 99, 97, 78, 77 and 69 total points respectively. It is also presented in the following Pie chart.

Figure 4.16 : Weight of Causes of not Responding their Rights and Duties by the Industrial Tax-payers.



4.2.11 Incentives Provided by ITA 2002

Tax laws provide incentives for the prioritized sectors. Proper incentives can boost up these sectors and economic development of the country. ITA 2002 has provided incentives to different types of industries but these are sufficient or not to contribute the economic development of that sector. Thus, to know the view of respondents about on incentives provided by ITA 2002, a question was asked, “Are incentives provided by ITA 2002 sufficient?” The view of respondents is summarized in the following table 4.30.

Table 4.30 : Sufficiency of Incentives Provided by ITA 2002

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	8	40	12	60	20	100
Tax-payers	11	55	9	45	20	100
Tax-administrators	7	35	13	65	20	100
Total	26	43	34	57	20	100

Sources: Opinion Survey 2008.

From table 4.30, 40% of tax-experts, 55% of tax-payers and 35% of tax-administrators and in total, 43% of respondents answered ‘Yes’, that means, they viewed ITA 2002 has made sufficient provision of incentive to boost up the economic development of the country. But 60% of tax-experts, 45% of tax-payers and 65% of tax-administrators and in total, 57% of respondents answered ‘No’, that means ITA 2002 has not provide sufficient incentives to conduct business. Their view was ITA 2002 has to made clarity in provisions and sectors to apply. And such incentives should be fitted to work environment.

4.2.12 Tax Holiday for Special Industries Established in Remote Area

Finance Act 2062 has provided tax holiday for first 10 years for special industries established in remote area for the industrial development in remote area. To know the view of respondents, it is sufficient to achieve this objective, a question was asked, “Special industries established in remote area get tax holiday for first 10 years. Is it sufficient for the industrial development in remote area?” The view of respondents is summarized in the following table 4.31.

Table 4.31 : Opinion of Respondents on Tax Holiday in Remote Area

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	5	25	15	75	20	100
Tax-payers	4	20	16	80	20	100
Tax-administrators	8	40	12	60	20	100
Total	17	28	43	72	60	100

Sources: Opinion Survey 2008.

From this opinion survey, 25% of tax-experts, 20% of tax-payers and 40% of tax-administrators and in total 28% of respondents consider it is sufficient to achieve the objective of providing tax holiday in remote area. But 75% of tax-experts, 80% of tax-payers and 60% of tax-administrators and in total, 72% of respondents consider it is insufficient. The view of respondents on tax holiday in remote area is summarized in the following table 4.32.

Table 4.32 : View of Respondents on Tax Holiday in Remote area

Holiday Period	Tax-experts	Tax-payers	Tax-administrators	Total
10 Years	5	4	8	17
15 Years	3	4	5	12
20 Years	9	7	3	19
25 Years	3	3	3	9
More than 25 yrs.	-	2	1	3
Total	20	20	20	60

Sources: Opinion Survey 2008.

From this survey, 17 respondents viewed 10 years, 12 respondents viewed 15 years, 19 respondents viewed 20 years, 9 respondents viewed 25 years and 3 respondents viewed more than 25 years tax holiday to be provided in remote area for special industry. Median tax holiday period in the view of respondents is calculated as follows.

Table 4.33 : Calculation of Median Tax Holiday Period in Remote Area

TaxHoliday Period (years)	No. of Respondents (f)	Cumulative Frequency(c.f)
10	17	17
15	12	29
20	19	48
25	9	57
More than 25	3	60

$$\text{Median} = \text{Size of } \frac{N \Gamma 1}{2}^{\text{th}} \text{ item} = \frac{60 \Gamma 1}{2} = 30.5^{\text{th}} \text{ item}$$

Size of 30.5th item = 20 years.

Thus, the median view of respondents on tax holiday for special industries in remote area is 20 years.

4.2.13 Important Factors for the industrial Development in the Country

Every tax rule aims to contribute for the industrial development of the country. But various factors affect for this. It is very important to provide incentives in such crucial factors. To know the view of respondents, a question was asked to rank the options, “For the industrial development in the country, what factors do play important role?” The opinion of respondent is summarized in the table 4.34.

Table 4.34 : Factors for Industrial Development in the Country

Respondents	Tax-experts		Tax-payers		Tax-administrators	
	T. Points	Rank	T. Points	Rank	T. Points	Rank
Tax Concession and Rebates	58	3	70	2	52	4
Infrastructure Development	83	1	85	1	80	1
Investment Tax Credit	71	2	61	3	70	2
Financing Facilities	51	4	48	4	58	3
Others	37	5	36	5	40	5
Total	300	-	300	-	300	-

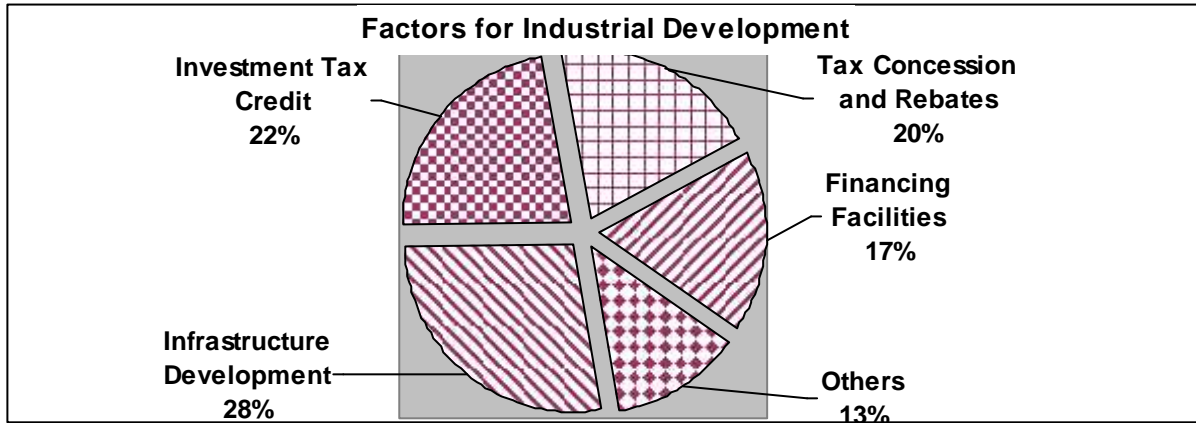
Sources: Opinion Survey 2008.

From the table 4.34, tax-experts ranked 1 for infrastructrue development, 2 for investment tax credit, 3 for tax concession and rebates, 4 for financing facilities

and 5 for others with 83, 71, 58, 51 and 37 total points respectively for the industrial development in the country. Tax-payers ranked 1 for infrastructure development, 2 for tax concession and rebates, 3 for investment tax credit, 4 for financing facilities and 5 for others with 85, 70, 61, 48 and 36 total points respectively. Tax-administrators ranked 1 for infrastructure development, 2 for investment tax credit, 3 for financing facilities, 4 for tax concession and rebates and 5 for others with 80, 70, 58, 52 and 40 total points respectively.

In total, infrastructure development, investment tax credit, tax concession and rebates, financing facilities and others get 248, 202, 180, 157 and 113 total points respectively. The weight of factors for the industrial development in the country can be seen in the following figure.

Figure 4.17 : Weight of Factors for the Industrial Development in the Country



Hypothesis

H_0 : There is no positive correlation between the rank of respondents of factors for the industrial development in the country.

H_1 : There is positive correlation between the rank of respondents of factors for the industrial development in the country.

Table 4.35 : Computation of Rank Correlation

d_1	d_2	d_3	$d_{12}= d_1- d_2$	$d_{13}= d_1- d_3$	$d_{23}= d_2- d_3$	d^2_{12}	d^2_{13}	d^2_{23}
3	2	4	1	- 1	- 2	1	1	4
1	1	1	0	0	0	0	0	0
2	3	2	- 1	0	1	1	0	1
4	4	3	0	1	1	0	1	1
5	5	5	0	0	0	0	0	0
Total						2	2	6

Note : d_1 = Rank of tax-experts opinion. d_2 = Rank of tax-payers opinion.
 d_3 = Rank of tax-administrators opinion.

We have Formula: $R = 1 - \frac{6\phi d^2}{n(n^2 - 1)}$

Rank Correlation between Tax-experts and Tax-payers, (R_{12}) = $1 - \frac{6\phi d^2_{12}}{n(n^2 - 1)}$

$$= 1 - \frac{6 \times 2}{5(5^2 - 1)} = 0.90$$

Rank Correlation between Tax-experts and Tax-administrators,

$$R_{13} = 1 - \frac{6\phi d^2_{13}}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 2}{5(5^2 - 1)} = 0.90$$

Rank Correlation between Tax-payers and Tax-administrators,

$$R_{23} = 1 - \frac{6\phi d^2_{23}}{n(n^2 - 1)} = 1 - \frac{6 \times 6}{5(5^2 - 1)}$$

$$= 0.70$$

Since the rank correlation between tax-experts and tax-payers, tax-experts and tax-administrators and tax-payers and tax-administrators is highly positive correlation, alternative hypothesis (H_1) is accepted that means, there is positive correlation between the rank of respondents of the factors for the industrial development in the country.

4.2.14 Scope of Special Industries

To know the view of respondents about the scope of special industry, should be broadened it or not to increase the scope of income tax. A question was asked, “Do you think any industries should be included in special industry that are not included yet to increase the scope of income tax?” The response of respondents is summarized in the following table.

Table 4.36 : Should broaden the scope of Income tax.

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax-experts	12	60	8	40	20	100
Tax-payers	8	40	12	60	20	100
Tax-administrators	6	30	14	70	20	100
Total	26	43	34	57	60	100

Sources: Opinion Survey 2008.

From this opinion survey, 60% of tax-experts, 40% of tax-payers and 30% of tax-administrators and in total, 43% of respondents are viewed to broaden the scope of special industry but others viewed not to expand the scope of special industry. They have suggested to include service industry in special industry.

4.3 Major Findings

Through the analysis of secondary and primary data quantitative and qualitative result supported to stretch out various findings that can be summarized in below separately.

4.3.1 Major Findings form Secondary Data

From the analysis of secondary data, especially quantitative information, the following finding points are mentioned.

1. Taxation is the dominant source of revenue collection in the country that dominancy trend is slightly has been increased in the latest period i.e. 80 percentage in year 2005/06. In the latest period, tax efforts ratio also has been satisfactory trend i.e. 10.53 percentage in the year 2006/07.
2. Marginal rate of tax revenue on GDP is increasing but not in stable rate. Marginal rate in year 2006/07 is 21.43 percentage. But hypothesis test shows that there is no significant difference in marginal rate before and after income tax reform in 2002 by accepting null hypothesis.
3. Indirect taxation is the dominant instrument of taxation in tax revenue that is just erratic character of developing country (Chaung, 1998). In the average of 10 years study period, indirect tax has contributed more than 60% of the total revenue and 77% of the tax revenue.
4. Comparatively VAT seems more effortful as a whole period and in the latest period 2004/05, 2005/06 and 2006/07 VAT has increased rapidly. VAT has been major source of indirect. Tax but in total amounts, excise duty and custom duty are increasing.

5. Income tax is the major source of direct taxation that averagely collects 80.6% in direct tax revenue. But the total amount of direct taxation is fluctuating. It has decreased in year 2003/04 heavily and increased in 2006/07 rapidly. The increase or decrease in proportion of direct tax has depend upon the increase or decrease in income tax.
6. Corporate tax is the major source of income tax. It contributes averagely 41.28% of the income tax revenue. Where as averagely contribution from individual is 40.83%. That proves that finding of World Bank, which tells corporate being major sources to collect revenue in the head of income tax (World Bank, 2006). Further research added that due to high practicing of informal economy by individual sector seems unproductive.
7. Other components of income tax – remuneration tax and interest tax – are very erratic in nature, which sometimes moves highly up and down and sometimes moderately. It shows that discretionary impact is highly essential to generate tax from these heads.
8. Nepalese tax system is not visionary structure, it only have tried to exploit the sources without supporting activities to them for tapping revenue as perpetual approach.

4.3.2 Major Findings from Primary Data

Espcially by the analysis of qualitative data that was obtained form the opinion survey approach some major points are mentioned below :

1. Income tax is an important source of collecting government revenue.

2. Provision for special industries under ITA 2002 has helped to increase government revenue by industrializing the economy, less burdening to tax revenue, timely payment of tax amount and easy collection of tax amount.
3. Almost 60% of respondents realize that the proportion of tax revenue on government revenue is not satisfactory. The causes of being unsatisfactory proportion are poor industrial sector, insufficient tax policy, weak tax-administration and bad habits of tax-payers respectively.
4. 93% of respondents realize the need of special provisions for manufacturing industries to promote industries, to increase the tax revenue and for balanced regional development respectively.
5. Utilization of facilities provided by act is important. But it was found that manufacturing industries has not utilized such facilities due to lack of effective planning system, lack of skill manpower, lack of knowledge of facilities and negligence of tax-administrators respectively. The view of respondents for the causes of not effective implementation of special facilities in manufacturing industries are highly positive correlated.
6. ITA 2002 has affected positively on special industries by timely registration and renewal of industries, timely reporting and payment of tax amounts, increase in the number of industries and increase in the volume of industries.
7. It is good to divide area into highly developed, undeveloped and underdeveloped zones to provide tax rebate for special industries. It has helped to promote industries for the regionally balanced development, to reduce administrative cost and to collect more revenue.

8. 1/3 additional depreciation should be provided to the special industries. 80% of the respondents feel it is good incentives for special industries.
9. Majority of respondents realize the need of 1/3 additional depreciation for special industries operated by national person but it should be clear on sector.
10. 53% of the respondents feel industrial tax-payers are responding their rights and duties while calculating tax liability. But others feel, they are not responding their duties due to lack of planning system, poor enforcement of fines and penalties, lack of information and procedural difficulties.
11. Most of the respondents have suggested to increase the facilities by making clarity in sectors.
12. Tax holiday for special industries established in remote area is insufficient to achieve the objective of providing such facilities. They have suggested to provide 20 years tax holiday as median value for special industries established in remote area.
13. For the industrial development in the country different factors plays vital role. Government has to provide not only tax incentives but also basic requirement to operate industries. Respondents have suggested to make infrastructure development, investment tax credit, tax concession and rebates and financing facilities respectively on the priority base for the industrial development in the country.
14. The view of respondents over the questions are mostly positive correlated which show that respondents have the same view and they understand the case nearly.
15. Respondents have suggested to include service industry in special industry.

CHAPTER – V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal lies at the bottom range even among of the least developed countries. About 40% of its population live under the poverty line with less than one dollar income level per day. More than 35% of population are illeterate and people haven't got basic opportunities like health, education and employment. Government have no sufficient fund to spend on development projects and economic growth rate of the country is very low of 2.5% where two neighbouring countries are getting double degit economic growth. Thus, government has to focus on the internal resource mobilization by effective tax system and curtailing the regular administrative expenses and investing in development activities to get multiplier effect in the economy.

Taxation is a tool to mobilize internal resources. Government collects revenue form public and spends on public interest. Through taxation it collects forms haves and spends on behalf of havenots. Thus it helps to minimize the gap between haves and havenots. In Nepal, average 78% of revenue is collected form tax and remaining portion is collected through non-tax sources. Indirect tax has the dominant role in tax revenue, it covers averagely 75 % of the tax revenue. VAT has been major source of indirect tax revenue and its porportion is growing but in tatal amounts custom duty and excise duty are growing. Under the direct tax income tax is has the dominancy power which covers more than 80% of the direct tax. In income tax revenue, corporate tax is the major source

and second is individual tax which covers averagely 41% and 40% of the income tax revenue.

Every tax policy provides incentives to promote industries in the country. According to the location of establishment and size and nature of the industries these facilities are different from each other. Such facilities are provisioned in income tax act. ITA 2002 has also provided incentives to special industries established in different area and different scale which is the topic of this study. Thus, in this study, detail study of provisions for special industries and their impact and what are and what should be in future has recommended with quantitative and qualitative data analysis.

This study entitled, 'Provisions for special industries in Nepal with reference to ITA 2002' is concentrated to analyze the tax provisions for special industries operated as an entity and operated by natural person in different area in different scales. This study also analyze the contribution of tax and non-tax revenue in public revenue, contribution of income tax on total revenue, tax revenue and direct tax revenue and analyze the structure of taxation in Nepal.

This research study is combined into five effortful chapters, first chapter naming of introduction includes background of the study, statement of problem significance, objectives, limitationa and research hypotheses with research questions. Second chapter is literature review which includes review of related books, articles, reports and research papers. This study is unique among the thesis because it is specific topic and important for the industrial development of the country. Most of the theses were found written on the various aspects of taxation. Books are found based mainly on the the syllabus of universities. Meaning, principle, objectives of taxation and their types, types of industries,

national priorities industries, special industries and their facilities are shown in conceptual framework of this study.

Primary as well as secondary data are used in this study. Economic survey and IRD reports are the major sources to collect secondary data. A scheduled questionnaire has been used to collect the opinion of respondents. It has distributed to the three distinct group of respondents i.e. tax-experts, tax-payers and tax-administrators. Tax-experts consist of charter accountants, professors and lectures related to tax and tax auditors. Tax-payers consists of government and private industries. Tax-administrators consist of government tax officers. The 75 sets of questions were distributed and collected. Among them 60 sets (i.e. 20 of each group) were selected as sample size. Statistical tolls – Mean, Median, Paired t-test, chi-square test and Rank correlation – has been done to test hypothesis to fulfil the objectives of the study. Major findings from primary data as well as secondary data analysis have been presented at the end of chapter four. The chapter five deals about the summary of whole research and conclusion with recommendations.

5.2 Conclusion

The conclusion of the study is presented below.

1. Government revenue is composed of internal and external sources. Internal sources are composed of tax revenue and non-tax revenue.
2. Tax revenue is the major source of internal revenue. It covers averagely 78.14% of internal revenue and it is increasing in last three year. Its proportion is 77.18%, 79.45% and 81.09% for 2004/05, 2005/06 and 2006/07 respectively.

3. Indirect tax is the major component of tax revenue. It covers 74.62% of tax revenue and 58.31% of total revenue on average.
4. Marginal rate of tax revenue to GDP before and after the reform of income tax act in 2002 is not significant different. So there is no effectiveness of income tax reform in 2002.
5. VAT has been major component of indirect tax. It contributes 25.62% of total revenue and 43.90% of indirect tax revenue. Its proportion is increasing rapidly.
6. Direct tax covers almost 25% of tax revenue and income tax is the dominant source of direct tax which covers more than 80% of it. Proportion of income tax is increasing in last years. Under income tax, corporate tax is the major instrument which occupies 41.28% of income tax. Corporate tax has increased in 34.70% to 44.81% from 2005/06 to 2006/07.
7. Proportion of non-tax revenue is in decreasing trend i.e. 22.82%, 20.55% and 18.91% for 2004/05, 2005/06 and 2006/07 respectively.
8. Tax-experts, tax-payers and tax-administrators have recognized income tax is an important source of government revenue.
9. Provision for special industries has helped to industrializing the economy, less burden to tax amount and timely payment of tax amounts etc.
10. Special facilities to manufacturing industries are needed to promote industries, for balanced regional development and to increase tax revenue etc.
11. Special facilities are not effectively implemented in manufacturing industries due to lack of effective tax planning, lack of skill manpower, lack of knowledge of facilities and negligence of tax-administrators etc.

12. ITA 2002 has affected Special industries positively by for timely registration and renewal of industries, timely reporting and payment of tax amounts, increasing in number of industries, increase in volume of industries etc.
13. Classification of total area into highly undeveloped, undeveloped and underdeveloped area and provide different rebate rate has helped to promote industries, for regionally balanced development, to reduce administrative cost, to collect more revenue etc.
14. 1/3 excess depreciation for special industries is needed. It is good incentive for such industries.
15. 1/3 excess depreciation should be provided to special industries operated by natural person.
16. Average industrial tax-payers are fulfilling their duties while calculating tax liabilities but remaining are not fulfilling due to lack of planning system, poor enforcement of fines and penalties and lack of information, procedural difficulties etc.
17. Tax holiday for special industries established and operated in remote area is insufficient .
18. For the industrial development of the country or to establish the industrial culture in the country infrastructure development, investment tax credit, tax concession and rebates financing facilities etc play vital role.

5.3 Recommendations

Based on the analysis, interpretation and conclusion certain recommendations can be made here so that concern authorities, future researchers, academicians and business persons can get insight on the revenue structure of Nepal and provisions for special industries under ITA 2002. It is considered that this research will be fruitful for them to take actions as well as future researches.

Special provisions are made on that sector which are important in the economy and they have multiplier effect. Provisions for special industry try to boost up the contribution of such industries on GDP. Different tax concessions, tax holidays, rebates and other facilities are provided for those industries aiming to get regionally balanced development and to increase self-dependency of the country on basic sector. But, in fact, that has not been achieved. So the following recommendations are suggested for further improvement.

1. Income tax is considered as an important source of collecting government revenue from internal sources. To increase the income from this source new industrial tax-payers should be brought into the tax bracket.
2. Individual sector are strong in income tax. They should be attracted into corporate sector by providing incentives and facilities. Corporate sector operate comparatively in large scale and less chance of avoiding tax.
3. The proportion of tax revenue on total revenue is not satisfactory it should be increased by promoting the contribution of industrial sectors and making tight tax-administration.

4. Facilities provided by act are not utilizing properly due to lack of effective planning system, lack of skill manpower. Thus they should be trained on planning methods and different tax related trainings should be organized to developed the skill of manpower used in these area.
5. One-third additional depreciation should be provided to special industries operated by natural person.
6. Fines and penalties should be effectively enforced. Provide clear cut information and remove procedural difficulties for the timely reporting and payment of tax amount. Simplified procedures is suggested to the tax offices.
7. For the industrial development in the country, non tax incentives play vital role . Thus, government should focus on infrastructure development like - industrial estate, road, powersupply etc. along with tax and financial incentives.
8. The scope of special industries should be broaden including service industry under special industries.

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APPENDIX

CLASSIFICATION OF DISTRICTS ON THE BASIS OF INDUSTRIALIZATION

Remote Area :

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

Undevelopment Area:

- | | | |
|--------------------|---------------|-------------|
| 1. Taplejung | 2. Rolpa | 3. Baitadi |
| 4. Rasuwa | 5. Gulmi | 6. Parwat |
| 7. Dadeldhura | 8. Pyuthan | 9. Doti |
| 10. Syalyan | 11. Panchthar | 12. Baglung |
| 11. Sindhupalchowk | | |

Underdeveloped Area:

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

Dear Sir/Madam,

At first, I would like to introduce myself as a student of Nepal Commerce Campus, Tribhuvan University, Master's of Business Studies (MBS) final year. In order to fulfill the partial requirement of Masters Degree in Business Studies of Tribhuvan University of Nepal, I am conducting the research work entitled, **“provisions for Special Industries in Nepal (with reference to Income Tax Act 2002)”**.

I have sent this questionnaire to spare some your valuable time to provide your valuable experience, suggestions and opinions concerning with income tax system in Nepal which will be very much appreciated if you could provide your important time for filling this questionnaire.

I assure that the information you provide me will solely be utilized in research work. I hope for your kind co-operation and support.

Sincerely yours

Bhakta Raj Basyal

Questionnaire

Research Topic : Provisions for Special Industries in Nepal (with reference to ITA 2002).

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

1) Do you think that income tax is an important source of collecting revenue of government ?

(a) Yes

(b) No

2) In your opinion, provision for special industry under ITA 2002 has helped to to increase the government revenue.

(a) Yes

(b) No

If Yes, How does it increase. (please rank)

(a) Industrializing the economy.

[]

- (b) Timely payment of tax amount. []
- (c) Easy collection of tax amount. []
- (d) Less burden to tax amount. []
- (e) Others (Please specify). []

.....

3) Do you think that proportion of tax revenue on government revenue is satisfactory ?

- (a) Yes
- (b) No

If No, what may be the causes (Please rank)

- (a) Poor industrial sector. []
- (b) Weak tax administration. []
- (c) Insufficient tax policy. []
- (d) Bad habits of tax-payers. []
- (e) Others (Please specify) []

.....

4) Are the special facilities needed to manufacturing industries ?

- (a) Yes
- (b) No

If yes, why does it need (Please rank)

- (a) To increase the tax revenue. []
- (b) To promote industry. []
- (c) For balanced regional development. []
- (d) Others (Please specify) []

.....

5) Are the special facilities provided by ITA 2002 is implemented effectively in manufacturing industries?

- (a) Yes
- (b) No

If No, what are the causes? (Please rank)

- (a) Lack of knowledge of facilities. []
- (b) Negligence of tax administrators. []
- (c) Lack of skill manpower. []

- (d) Lack of effective tax planning. []
- (e) Others. (Please specify) []

.....

.....

6) Is there any positive impact of ITA 2002 on special industry?

- (a) Yes
- (b) No

If Yes, how is the impact? (Please rank).

- (a) Increment in the number of industries. []
- (b) Increment in the volume of industries. []
- (c) Timely registration and renewal of industries. []
- (d) Timely reporting and payment of tax. []
- (e) Others. (Please specify) []

.....

.....

7) ITA 2002 has provided rebate of 30%, 25% and 20% of applicable tax rate for special industries established in highly undeveloped, undeveloped and underdeveloped zone respectively for tax purpose, does it good ?

- (a) Yes
- (b) No

If Yes, it helps ... (Please rank)

- (a) To promote industries. []
- (b) To collect more revenue. []
- (c) For the regionally balanced development. []
- (d) To reduce administrative cost. []
- (e) Others, (Please specify) []

.....

.....

If No, why and what should it be? (Please specify)

.....

.....

- 8) In your opinion, should 1/3 additional depreciation be provided to the special industry?
 (a) Yes (b) No
- 9) Is it necessary to provide 1/3 additional depreciation to natural person too ?
 (a) Yes (b) No
- 10) Are industrial tax-payers responding their rights and duties sincerely in calculating tax liability?
 (a) Yes (b) No

If No, what may be the reason ? (Please rank)

- (a) Lack of information []
 (b) Procedural difficulties []
 (c) Lack of planning system []
 (d) Poor enforcement of fines and penalties []
 (a) Others. []

- 11) Are incentives provided by ITA 2002 satisfactory?

- (a) Yes (b) No

If No, what should be? Please specify.

.....

- 12) Special industries established in remote area get tax holiday for first 10 years. Is it sufficient for industrial development in remote area?

- (a) Yes (b) No

If No, what should it be?

- (a) 15 years (b) 20 years
 (c) 25 years (d) More than 25 years

- 13) For the industrial development in the country, what factors do play important role ?

(Please rank).

- (a) Tax concessions and rebates. []
 (b) Infrastructure development. []
 (c) Investment tax credit. []
 (d) Financing facilities. []
 (e) Others []

14) Do you think any industries should be included in special industry that are not included yet to increase the scope of income tax?

(a) Yes

(b) No

If Yes, please specify these industries.

.....
.....

15)If you have any suggestions , please mention.

a).....

b).....

c).....

d).....

Thank You

Name :

Occupation / Profession :

Organization :

Address :

9.