CHAPTER-I

INTRODUCTION

1.1 General Background

Nepal is a small landlocked country sandwiched between two larger neighboring countries, China and India. Not only the size of the country is small but its economy is like its size and the economic development is at low level. The two big neighboring countries have strong economic policy as well as strong implementing practice. But Nepal's planning and its implementation is at minimum level that is very poor therefore it is in the group of the worlds poorest countries.

Nepal is facing the critical challenges of alleviating poverty, correcting inequalities in the distribution of income and opportunities, delivering the basic services to people, advancing and sustaining growth and development. To develop the country it has adopted its own style and economic tools. It has adopted the mixed economic policy to increase efficiency of economy as well as to achieve development goal. The wide spread rural poverty and failure to reap the benefits of developments equally to all is one of the critical factor for Nepal's development. Therefore solving the rural areas problem can't be easy. In order to increase economic growth as well as quality of people’s life, it has adopted the planned policy. The government of Nepal has been pursuing planned development since five decades but due to its poor implementation no good results were seen and the poverty line of people here is same and is at very high level.

We can realize the main cause of poverty is because of minimum utilization of available resources and resource gap. To solve this it also has adopted open door policy that would help increase the resource mobilization. The major objective of the policy is to use external financial sources and technical support for meeting the resource gap. But the plan made to support the policy has been an obstacle rather than a catalyst due to various reasons.

Government is a kind of administrative entity, which is formed by people. It has many responsibilities some of them are: keeping peace and security, handle the day to day administration development program and launching other public welfare programs. To fulfill the above responsibilities, Government requires huge amount which is called government (public) revenue.

There is significant resource gap problem in Nepalese economy. Public expenditure is greater than public revenue. The resource gap has been rapidly increasing in the recent years. In the fiscal year 2001/2002 total expenditure was Rs.68836.1 million and total resources were Rs.52914.1 million. The resource gap was Rs.15921.2 million. In the fiscal year 2005/2006 total expenditure was Rs.101636.7 million and total revenue was Rs.82040.5 million. The resource gap was Rs.19596.2 million. Resource gap was increasing by 22.93 % from fiscal year 2000/2001 to fiscal year 2005/2006. It is necessary to increase the government revenue for bridge the resource gap. Government revenue is collected from various sources divided into two major parts, external & internal sources. (Economic Survey; 2001/2002 & 2006/2007).

External sources are foreign grant and loan. This kind of fund is received from foreign countries which is more important for underdeveloped country like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover crisis condition and productive use (Sharma 2002:26). But such external sources are uncertain, inconvenient and not good for healthy development of nation not only they have to be returned after certain due date but also it has a heavy dependent on them. So it is better to mobilize internal sources rather than looking with beggars eye to donors (Pant, 1996:29).

Internal source of funds include both tax and non-tax revenue. Tax revenue includes the amounts, which are compulsorily contributed by taxpayers to the government whereas non- tax revenue includes fee, penalty, special fees and grants. Non-tax revenue is inconvenient and uncertain because they are lived according to the necessary of government. But tax revenue (taxation) not only contributes in nation capital formation but also in equal distribution of national income of the country. It helps to reduce the unequal distribution of public revenue and it has been taken as the best effective tools for raising the public fund (Sharma, 2002:38).

Among the above source, tax is the major source of government income. Tax is a compulsory contribution made by tax payer to the government according to law. Tax payer can't claim direct benefit because of tax payment the government mobilizes these taxes amount for public interest.

From the above definition, it can be said that the taxpayer does not receive the equivalent benefit from the government. Tax is paid to the state to perform the function of the government and the amount of tax is spent for common benefits and interest of people.

The taxes can be classified on direct & indirect tax. Income tax is the most popular direct tax, it is considered as one of the major element of tax revenue. Income tax is charge on person's income according to the law of nation. It covers all the fees additional fees, fines related to income tax. Income includes all the income, which are received from business, investment and employment. Income tax is superior to other because it is imposed on the basis of paying capacity of taxpayer. The more you earn the more is the tax burden.

Income tax plays very important role in the Nepalese economy. Income tax is one of the better sources of public revenue. It is one of the tools of achieving maximum social and economical objectives as laid down by the constitution of Nepal. Income tax also helps to increase the awareness and make the people realize the social responsibility because the people who have paid the income tax are interested in public expenditures (Dhakal 2002:10-16)

In the year revenue structure of Nepal, share of tax revenue and non-tax revenue were Rs.57427.0 million and 14855.1 million respectively, in fiscal year 2005/2006 where as income tax contribution 10933.5 million only. Income tax contribution on total tax revenue is 15.12 percentages. (Economic survey)

Generally bank is an institution that deals with money. A bank performs several financial, monetary and economic activities, which are vital for economic development of country. It is a monetary institutional vehicle for domestic resources in the fields of agriculture, trade, commerce etc. Banks are financial institution. They are providing loan and other banking services. They support the national economy. Most of the loan provided by banks is used for generating income. If income increases income tax and revenue of government also increases. In one way there is a direct relationship between the government revenue and the income earned by the people. If loan amount are used in consumption, it also support in increasing the income. Banks are significant tax payer institutions. Tax payment by banks makes significant impact in total revenue of government and total income tax.

1.2. Introduction of bank

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transaction is called bank. A bank simply carries out the work of exchanging money, providing loan, accepting deposit and transferring the money .Section 23(a) of the Nepal Rastra Bank Act 2058(2002) defines bank as follows:"Bank" means the Nepal Rastra Bank established under section 3 of this Act. Like -wise, according to section 23(b) of the Commercial Bank Act 2031 (1974), Bank means" a commercial bank established under this Act". Through the banks by both of these acts are called bank, we do not find clear definition of it. In addition to this, section 2 (a) of the Negotiable Instrument Act 2034(1977) defines that a bank, which is established under the existing law shall be called bank.

"A bank is an institution which collects money from those who have it spear or who are saving it out of their income and lends this out to those who require it."

- G.Crowther

"A bank is established which makes no individual such advances of money as may require and safety made and to which individual entrust money not required by them for use."

- Professor Kinkey

"A bank is an established for the custody of money received from or on behalf of its customers , its essential duty is to pay their draft on it , its profit arises from its use of the money left unemployment by them."

- Shorter Oxford English Dictionary

Hence, bank means" A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds."

1.2.1 Origin of Bank

In Thomson's Dictionary of Banking, it is stated that the word bank is said to be derived from the Italian word "Banco", a bench . The early bankers, the Jews in Lombardy, transacted their business at benches in the market place. When a banker failed, his" Banco" was , broken up by the people, whence on word bankrupt . One of the early Italian banks , the Bank of Venice , was originated for the management of a public loan, or "Monte", as it was called Maclead, however, does not agree with this view and says " The Italian money charges as such were never called "BANCHEIERI" in the middle ages." It may be more correct to say that at that period the Germans were masters of the great part of Italy and the word bank is derived from the German word "Bank" came to be used as its Italian equivalent "Monte"or"Banchi". Hence "Bank" in Germany language, "Banco" in Italian, "Banke" in French and "Bank" in England were used.

In the opinion of French writer Revil Pout, the use of bank notes were started in Babylon in 600BC. And the "Bank of Venice " of Italy was established in the middle ages. The use of it in India was started as far ancient age.Kautilya's economic also describes bank. The Manusmriti too has explained the banking system of ancient age. Banking custom and tradition begun before 8th century in Nepal Before 12th century, the goldsmiths and other similar types of bankers used to collect the money and provide loan to the needee.

1.2.3 History of Banking in Nepal

The history of banking in Nepal may be described as a component of gradual and orderly evolution in the financial and economic sphere of the Nepalese life. The financial system is still in the evolutionary phase. The existence of unorganized money markets consisting of money lenders, landlords act as barriers to institution credit.

Prior to Establishment of Nepal bank limited there was no organized financial institution. In Nepal "Tejarath " was established in 1933(1876 A.D.) for simple banking transaction. The establishment of Tejarath fully subscribed by the government in Kathmandu and was one of them.

The main purpose of setting up of Tejarath was to provide credit facility to the general public. At the rate of interest of 5% .The establishment of this institution marked the beginning of extending credit through any financial institution relieving the people from the exorbitant rate of the interest changed to money lenders.

The "Tejarath" was set up with the solo objection of providing credit but it did not accept deposits from the public, so to solve problem of the people to deposit money Nepal bank was established. In co-operation with the imperial Bank of India, Nepal Bank Limited came into existence as the first commercial bank in Nepal in year 1973.

Nepalese economy faced various difficulties associated with an unstable exchange rate and the problems created by the dual currency system. Therefore an urgent necessity was felt for the establishment of a Central Bank To the manae the circulation of National currency and to maintain exchange rate stability Nepal Rastra Bank was formulated in 1955 and on April 26, 1956 Nepal Rastra Bank came to existence as the Central Bank.

The monetary transaction got more complicated NRB suggested the government to establish another commercial bank and so Rastra Banijaya Bank established in 1966 as second commercial bank of Nepal.

Apart from this banks that came into existence were:

Nepal Industrial Development Bank.

Agriculture Development Bank.

Having realized that, Nepal Bank and other government owned banks are not sufficient to cope with the fast changing economic environment. They permitted the private sector to operate private bank in Nepal. Following Joint Venture Bank were established in Nepal:

Nepal Arab Bank Ltd. (United Arab Emirates).

Nepal Indo- Suez Bank (France).

Nepal Grindlays Bank (England).

Himalayan Bank Ltd. (Pakistan).

Nepal SBI Bank (India).

Nepal Bangladesh Bank (Bangladesh).

Everest Bank Ltd. (India).

Bank of Kathmandu (Thailand).

Nepal Bank of Ceylon Bank Ltd. (Sri- Lanka).

In the addition to these banks there are other two reginal banks operating in Nepal .They are as follows:

Nepal Industrial Bank.

Lumbini Bank

1.2.4 Joint Vanture Bank

A joint venture is formed by way of two or more enterprises joining together for the purpose of carrying out a specific operation (industrial or commercial investments, production trade). Joint Venture Banks are commercial banks formed by the joining of two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or trades to achieve mutual exchange of goods and services.

Nepal is adopting mixed economic policy with participation from both private and semi government organizations. According to mixed economic strategy and liberal economic policy, several Joint Venture Banks are operating simultaneously. The first joint venture bank of Nepal is Nepal Arab Bank Ltd (NABIL) which was established in 2041 B.S. under Commercial Bank Act 2031. Then, many other Joint Venture Banks were set up under the Commercial Bank Act 2031. Nepalese Joint Venture Banks should take initiation to search new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time the banks and financial institutions are offering very low interest rate on deposit. In this situation, Nepalese Joint Venture Banks are required to explore new opportunities to make investment if they want to survive in the competitive market, since commercial banks can inspire entrepreneurship the banks should also consider nation's interests and government emphasis for the economic growth of the country by the development of industry and business and fulfill the objective of the profit making. Given below is the list of Joint Venture Banks operating in the country.

- -Nepal Arab Bank Ltd. (NABIL, 2041)
- -Standard Charted Bank Nepal Ltd. (Previously Nepal Grind lays Bank Ltd) (2043)
- -Himalayan Bank Ltd (2049)
- -Nepal State Bank of India Ltd. (SBI, 2050)
- -Nepal Bangladesh Bank Ltd. (2051)
- -Everest Bank Ltd. (2051)

Nepal Arab Bank Ltd. (NABIL):

NABIL Bank is the first joint venture commercial banks incorporated in 1984 A.D. (2041 B.S) in Nepal. Initially, Dubai Bank Ltd (DBL) invested 50% of share in this bank; the shares owned by DBL were transferred to Emirate Bank international Ltd. (EBIL) Dubai. Later in EBIL sold its entire stock to National Bank Ltd. Bangladesh (NBLB). NBLB is managing the banks which are in operation in the country. Now the share of invested capital by the foreign investor is 50% and national investor is 50%. Total share capital of this bank is Rs 4,916,54,400, of which national investors have invested Rs 24,58,27,200 and foreign investor have invested Rs 24,58,27,200.

NABIL Bank is rated a successful commercial bank, it has been helping business communities and the government in different ways since its establishment. This bank has achieved the bank of the year Nepal 2004 award. Now the bank is well known as NABIL Bank limited and it has 27 branches office in operation. It's authorized and paid-up capitals are Rs.50, 000,000 and Rs.49, 165,400 respectively.

Standard Chartered Bank Nepal Limited:

Standard chartered Bank Nepal Ltd. was incorporated in 1985 as a second foreign joint venture bank under the Commercial Bank Act 2031. The foreign joint venture partner was Grindlays Bank Ltd. That was managing the bank under joint venture and technical services agreement signed between it and Nepalese promoters. The bank has 11 points of representation (7 Branches) and 9 ATMs across the country.

Grindlays Bank merged with Standard Chartered Bank Group. Therefore, its international partner is Standard Chartered Bank Group. Standard Chartered Bank group hold 75% of its shares. Standard Chartered Bank Nepal Ltd is a leading commercial bank. It introduced new banking service to business community and general public. It was awarded Bank of the year 2002, Nepal, national excellence award 2002, “the best company, financial institutions” 2003 etc. Its authorized and paid-up capital is Rs.1, 000,000,000 and Rs.374, 640,400 respectively. 25% of is paid up share capital is owned by national investors which is Rs 9,36,60,100 and 75% share capital is owned by international investors which is Rs 28,09,80,300.

Himalayan Bank Limited:

Himalayan Bank limited was incorporated in the 1992 A.D (2049 B.S). It was established under the Commercial Bank Act 2031. It is also a foreign joint venture bank and the foreign investment partner is Habib Bank Ltd of Pakistan. Habib Bank Ltd. Holds 50% of its share. This is first joint venture Bank managed by Nepalese chief executive. It is awarded by the no. 1 bank of Nepal 2003, 2006 and national excellence award 2003. There are 16 branches of Himalayan Bank limited which are in operation. Now it has provided 'Any Branch Banking Facility’, Internet Banking and SMS Banking. It’s authorized and paid-up capital is Rs.1, 000,000,000 and Rs.81, 08,10,000 respectively, on which national investors have owned 80% of paid up share capital and 20% of paid up share capital is owned by international investors.

Nepal SBI Bank Limited:

Nepal SBI Bank limited was incorporated in 1993 A.D. (2050 B.S.). It was established under the commercial Bank Act 2031. It is also a foreign joint venture Bank. Its foreign investment partner is state Bank of India and holding the 50% of equity share. The bank is managing under the joint venture and technical services agreement signed between it and Nepalese promoters. There are 15 branches and one extension counter of Nepal SBI Bank limited in operation. On-line Banking and ATM facilities also has provided from several branches. It's authorized and paid-up capitals are Rs.1, 000,000,000 and Rs.640, 236,100 respectively on which local ownership is 49.39% which is Rs 31,62,36,100 and foreign ownership is 50.61% which is Rs 32,40,00,000.

Nepal Bangladesh Bank Limited:

Nepal Bangladesh Bank limited was incorporated in 1994 A.D. (2051 B.S.). It was established under the company Act 2021 B.S. And commercial bank act 2031. It is also a foreign joint venture bank and the foreign partner IFIC Bank Ltd. of Bangladesh. It is managing under the joint venture and technical services agreement signed between it and NBB till 2006. But now it is managing by the Nepal Rastra Bank. It has 17 branches in operating. The authorized capital and paid-up capital are Rs.1, 5, 00,000,000 and Rs.71, 98,52,000. On which foreign ownership is 25.01% and 74.99% is national ownership.

Everest Bank Limited:

Everest Bank limited was incorporated in 1992 A.D. (2051). It was established under the commercial Bank Act 2031. It is also a foreign joint venture Bank and the foreign partner was united Bank of India Ltd. and was managed from the beginning till now. Later on, it handed over the management to the Punjab National Bank Limited of India that hold 20% equity on the Banks shares capital is operation. The bank is awarded by the Bank of the year 2006 Nepal. It has the largest network among the private sectors Bank in Nepal which has 20 branches in operations. Its authorized capital and paid-up capital are Rs.1, 00, 00, 00,000 and Rs.51, 80, 00,000 respectively. On which 20% of share capital is owned by foreign investor and 80% is owned by national investor.

1.3 Statement of the problem:

The world crossed the industrial era in 18th century but Nepal is still applying traditional approach of production. Despite more than four decades of planned development, the Nepalese economy is persistently suffering from general poverty and stagnation. Because of internal conflict of this country resource mobilization is still poor which doesn't meet the growing expenditure of nation.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as the main source of finance. Without the development of sound commercial banking, under-developed countries cannot hope to join the ranks of advanced countries. The term commercial bank comes from commerce. Commerce is the financial transaction related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial view point. They perform all kinds of banking functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

But trend of deposit utilization for these banks is found to be in fluctuating. In that situation the growing competition among financial institution, recent increase in transaction of security and capital market as well as the taxation laid on higher deposits in banks might be adversely affecting banks deposit collections function. Commercial banks in Nepal haven't succeeded much in mobilizing capital for productive purposes. A proper effective, efficient and economic tool for collecting resources hasn't been devised in Nepal. Therefore commercial banks have to try their best to induce Nepalese people to save and deposit their savings in banks and to utilize such deposits to the maximum possible extent. In one part we can say that they are profit-oriented organization. They make profits from the financial transactions by rendering services to the public and business organizations and pay income tax to government from their taxable income. There are also some problems in collection of income tax from Joint Venture Banks. Some Joint Venture Banks have appealed to revenue tribunal from time to time. It shows there are some weaknesses in tax assessment of such Joint Venture Banks. The main factors being vague law and regulation of income tax acts and financial acts.

In the Nepalese economy some Joint Venture Banks are being operated successfully but few are in financial crisis. What is the problem with these Joint Venture Banks? The main concentration of this study is to understand the tax paying behavior of the Joint Venture Banks (JVBs) in context to prevailing laws relating to Income Taxes and also laws under which these banks are being operated. To better understand the problems noted above relating to mobilization of more resources through income tax from Joint Venture Banks.

Beside the above problem, the study addresses the following research questions.

Is there significant contribution of Joint Venture Banks (JVBs) in the government revenue?

Does income tax paid by Joint Venture Banks have significant impact in total income tax?

1.4 Objective of the Study:

The main objective of the study is to explore the income (corporate) tax collection from Joint Venture Banks by the government for the last five years and other objectives are follows:

1. To analyze the volume of indirect tax and direct tax in total tax

revenue.

2. To analyze the contribution of income tax paid by Joint Venture Banks on total tax revenue and total income tax.
3. To examine the impact of special facilities and benefits provided to banks by Income Tax Act 2058.
4. To point out the major problems on income tax faced by Joint Venture Banks.
5. To analyze the proportion of foreign investors shares in Joint Venture Banks capital.
6. To provide appropriate Suggestion to minimize problems on income tax faced by joint venture banks and increase contribution on income tax by joint venture banks.

1.5 Significance of the study

Nepal is undeveloped country which has very low growth rate. From the report of revenue department of government we can say income tax is also the major part of tax revenue. Because of the major part of Income tax, in the country like Nepal the importance of income tax can not be minimized. Income tax can be increased through proper correction in collection procedures and identification of potential taxpayers. So, it becomes necessary to analyze the different income tax payers under each head and income tax collected from each group of taxpayers from time to time. Joint Venture Banks are also income taxpayers. The problems they are facing in tax paying should be corrected and facility in tax paying system should be increased so that they may contribute more income tax to the national revenue. Joint Venture Banks are such institutions, which are directly linked with many other business activities. A tax collection analysis from Joint Venture Banks may help to locate potential new and hidden taxpayers. Besides, this analysis may be useful to make new policies for granting various facilities to the commercial banks for making more taxable income in the competitive environment and legal correction. This study is concerned with these aspects and it will be useful to the tax experts, bankers, tax authorities and many others like teachers, students and people who are interested on it.

1.6 Limitations of the study

In the process of research study undertaken is limited by many constraints. Constraints may be time limit, area of the study undertaken and on collected information and data. In this research study also has some limitations. They are as follows.

This study has concentrated on the tax collection by government but not separately by the different sources.

This study has concerned income tax paid by Joint Venture Banks operating in Nepal.

This study has covered past five years of period (from fiscal years 2059/2060 to 2063/2064).

Primary data have been collected through opinion survey of Bankers and tax experts available in Kathmandu only.

The analytical reports have been prepared based on availability of data and information.

1.7 Organization of the study

The study has been organized into five chapters. The first chapter is about introduction. It covers background of the study, Introduction of bank and joint venture banks in Nepal, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

The second chapter, review of literature covers mainly three parts: conceptual framework, review on related literature and research gap. Conceptual framework part deals with meaning of tax, types of tax, objectives of tax, meaning of income tax law in Nepal, income tax administration in Nepal, meaning of bank, kind of bank, development of bank in Nepal, meaning of Joint Venture Banks . Similarly, review on related literature part deals with the reviews of different literature, which are closely related to this study.

The third chapter, research methodology, covers the detail research methods that are planned for conducting this study. The chapter deals with the research design population and sample, sampling procedure, nature and sources of data, data collection procedure, method of data presentation and analysis. Tools and techniques of analysis and respondents profile.

The fourth chapter, analysis and presentation of data covers structure of Nepal government revenue, contribution of tax revenue to the total revenue, income tax collection from Joint Venture Banks, ratio of income tax collection from Joint Venture Banks in total tax revenue and total income tax. Second part of this chapter covers analysis of banker’s opinion survey, analysis of tax expert opinion survey and comparative analysis of opinion survey. Third part covers major findings of the study and final or fifth chapter of the study covers summary, conclusion and recommendation

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual framework

2.1.1 Introduction of Tax

Taxation is the biggest source of for shaping the political activities of the government. Tax is a kind of money which it is the public revenue of the modern government. In a democratic political set up, taxation is responsible legal duty of every citizen of country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. In short, tax is the major source of the government's income. Many economists are of the view that tax is a compulsory payment to the government by tax-payer without any expectation of some specified return. A tax payer is not entitled to compel the government, while paying a tax, to give something to him in return of the amount he has paid. But taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly. The scene of the argument is that the tax-payer is not entitled to claim any return against the payment of his taxes through modern taxation policy that aims at the fulfillment of the objectives of social welfare.

In simple words, Tax is simple terminology, a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. However different experts tried to defined taxation in different ways as stated below:

"A Tax is compulsory payment from a person to the government to defray the expenses incurred in the common interests of all without reference to special benefits conferred."(Seligman)

From the above definition it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. Secondly, the tax payer cannot receive any quid pro quo for the payment of tax. The tax payer does not receive equivalent benefit from the government. Thirdly, the tax is paid to the government for running it. 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 an artificial person pays the tax.

"A tax is a compulsory payment to the government without expectation of direct benefit in return to the taxpayer." (Taylor)
This definition also highlights the tax as compulsory payment not optional and the taxpayer paid tax with no expectation of benefits directly in return.

"A tax is a compulsory contribution imposed by public authority irrespective of the exact amount of service errand to the tax-payer in return and not imposed as a penalty for any legal offence." (Dalton)

From the definitions it is cleared that the taxes are not a voluntary contributions by the tax-payer but it is compulsory in nature. Therefore, one can say that every payment by individuals to the state is not a tax. It is just like withdrawal from the people's income which reduces their purchasing power. It should be noted here that tax checks production where as public expenditure may support the productive process.

Types of tax:

Tax can be classified on different basis some of them are as follows:

On the basis of shifting of burden, there are two types of tax:

- Direct tax and
- Indirect tax.

On the basis of the level of government:

Two types:

- Central taxes and

- Local taxes

On the basis of tax base:

- Specific tax and
- Advalrem tax

On the basis of progressiveness:

- Proportional tax
- Progressive tax and
- Regressive tax

2.1.2 Canons of Taxation

There are different views regarding the requirement in a good tax system. Some of them are explained below:

As per Smith's view:

Canons of Equality

Canon of equality emphasizes on paying the tax on the basis of the ability to pay. Tax should be levied on equal ground to all the taxpayers having equal incomes.

Canon of certainty

Canon of certainty implies that time, method, manner and quantity of paying the tax should be certain.

Canon of convenience

Convenience is another quality of a good tax system. Most of the taxpayers are ordinary people who neither have sufficient tax related knowledge nor the capacity to hire tax experts. That is why the tax system should be of such type that can be followed by ordinary people in the society. The time of payment and the manner of payment should be convenient.

Canon of Economy

Canon of economy implies that the cost of collecting the tax should be minimum difference between the amount that people take out of their pocket to pay tax and the amount that actually goes to the state treasury.

As per Bastable:

Canon of productivity

Canon of productivity means that every tax system should be revenue productive. It means that there should be those taxes only, which provide adequate revenue. Taxes that do not provide adequate revenue should be withdrawn.

Canon of flexibility/Elasticity

Flexibility indicates two parts; first, a tax system should have the characteristic of revenue elasticity. There should be built-in tie-up between the economic activities, higher is the revenue. Second, the tax system should be of that type which provides the revenue as per the necessity of the situation. If there is need of higher revenue, the tax system should provide as per the needs.

Other Modern Economists:

Canon of Diversity

Tax system should not totally depend on one source of revenue. It is risky to the government to depend on only one source. That means that the sources of taxation should be diversified as far as possible. This principle says that tax should be levied on various stages and various sources. There should be multiple taxes in place of single tax. Similarly, a tax system should be of that type, the burden of which is diversified on people of different walks of life.

Canon of Simplicity

Simplicity means understandable. The tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance.

Canon of Neutrality

Tax should not affect badly to the economic sector of the country. Tax policy should not only focus on collecting more revenue but also study the effect on the economic activities of the country. This means, production and distribution aspect of the country should not be affected badly by the tax system.

2.1.3 Objectives of tax:

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objectives of taxation have been different epochs. In ancient times, the major objectives of taxation were strengthening the muscle of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resource to the government for providing security to an individual and society against violence, invasion, and injustice and maintaining public institutions.

The government of every country collects its revenues through different sources. In modern days the main objectives of taxation has been shifted from security perceptions to the economic development. The modern objectives of taxation are not only to maintain peace and security.

Some major objectives are explained below:

a. To raise more revenues

Every nation, need money for operating different kinds of works which can't performed by the private sectors such as development and welfare programmed of the nation, as well as to motivate private sector. For that tax is main source of revenue. The government imposes taxes to raise more revenues.

b. To maintain of welfare state

It is no doubt that the role of government is vital to develop the country. For the welfare state, needs huge investment in development activities. It has to make its expenditure on education, health industrial development etc. Among the different activities economic stability is also important function of the state. In the period of economic instability (inflation and deflation) to balance purchasing power of consumer tax can play vital role by fluctuating in tax rate.

c. To prevent from economic inequalities

In equalities means the economic gap between the levels of people. It is one of the main challenges of the word and the every nation also. By adopting the progressive tax policy and mobilizes it to improve the economic conditions of low-income group. As result, the economic inequalities will be reduced.

d. To remove regional economic disparity

It is challenge of the nation to achieve balance development in the state. The government provides tax exemptions, rebates and concessions to those industries which are operated in the backward and remote regions. As a result, the economic activities will be increased in these regions so as to remove the regional economic disparity.

Including the above there are other objectives such as, to encourage production of essential goods, increasing the saving and investment, rapid growth of the nation which can achieve from the implementation of tax. So in this world, tax is the key feature of economy, from the proper utilization of this every nation can get success to collect the revenues, maintain equality and increase in economy level etc.

2.1.4 Income Tax

Simply the meaning of Income is the inflow of cash to the person. Income has been defined in different ways in different subjects (in economics, taxation, accounting etc).

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

$Y=C+S$

Where,

Y =Income

S =Saving

C =Consumption

But the purpose of taxation, the definition of income is somehow different from the aforesaid definition. Income tax is a levied directly on the income of a person or a company and paid to the local, state, or federal government. It’s the Government’s way of raising money to pay for all the country’s essential services.

Different countries have different concept on income tax, In Great-Britain, the original concept of tax was that of levy on recurrent income and the tax was applied to five schedules. In USA as a matter of practice, recurrence is not relevant to the tax status, In India; the personal income tax is levied on the net income of all individuals. Singh has defined the term income tax as the levy on the net income derived after deducting all allowable deductions. Income tax is levied on the income derives from business, agriculture, remuneration profession, insurance, investment agencies and other sources derived in cash or kind (Singh, 2001:16).

According to Income Tax Act 1974(2031) “Income means the income earned or received in cash or kind from the sources mentioned in sec.5”. In section five different head of income were mentioned. They were as follows: [ITA, 1974].

Agricultural

Industry, Business Profession or Vocation

Remuneration

House and Land rent

Other sources

The existing Income Tax Act 2002 (2058), which has been enacted since 2058 Chaitra 19, has defined income in section '2ja' as "Person's income from any employment business as calculated in accordance with this Act (ITA, 2002). It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in the taxable income.

According to Income Tax Act 2058 "Tax means the tax imposed and includes the payments of tax which is deduction at source. The basic objectives of income tax are two fold revenue collection and redistribution. In some detail, these objectives can be divided into four parts-primary objective of raising revenue: the economic objectives of providing fiscal policy tool to stimulate private investment, reduce unemployment and lower the effects of inflation on the economy: the encouragement of certain activities like specialized industries and small business, research and development, maintaining environment, personal saving etc. and; social objective of encouraging socially desirable and undesirable activities like special tax favor to social institutions, special tax exemption to low income groups in the society.(Kandel, 2004:12)

A Tax imposed on income base is called income tax or income tax refers to the levied on the income of a person and profits of the corporation for the specific time period particularly one year. In a broad sense, income tax is a levy based upon the production or receipt or gain of the tax-payers within a definite period of time.

The country who implied the income tax in first 1799 is Great Britain. It imposes income tax in order to finance war with France. Similarly, in U.S.A the first federal income tax was imposed in 1862 with the same purpose as Britain. However these countries imposed income tax as temporary until 1860. Thereafter, since 1913 it was accepted as permanent tax. This, income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1891. Australia and Canada had followed the income tax in 1915 and 1917 respectively. After that world war, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980).

Any way Income Tax is the main source of revenue to the government. It is a best measure of economic well being of person as well as of nation. Higher income denotes the high living standard and lower income refers to the low living standards of people. People generate income from rendering various types of services, selling goods and producing crops for their own use. Thus income may be cash or kind that is received by a person for livelihood.

2.1.5 Historical background of taxation

In early days, taxes were collected at the time of emergencies to finance wars and to provide communal services. Taxes were levied on the basis of welfare of the people. At that time tax was not compulsory payment. People voluntarily paid the tax because non-payment of tax was taken as sin in the Hindu tax system. According to Hindu's scripture, the duty of king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

The introduction of income tax was quite later then some other taxes. Income tax was levied especially during the period of war to uplift the country from financial crisis. Today income tax is contributing to the national revenue of every country.

In our neighboring country India, The income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2057).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at flat rate, the principle of progressive rate of income tax had been adopted by the United Kingdom and New-Zealand since 1909, and Now-a-days the progressive rate is commonly used rather than flat rate in all over the world.

2.1.6 Taxation in Nepal:

Likewise the others country Nepal's taxation system has crossed the different steps. For the easy study it is effort to describe in different parts which are stated below:

Taxation in Ancient Nepal

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, Travelers and farmers in the form of cash and labor. On some occasions gold and agricultural products were also paid as taxes; but the natures of these taxes were temporary. In the Lichhavis regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called “Bhaga”. The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8, and ½ quality of the land that was called 'Kara'. There also exists irrigation and religious tax during the regime of king of Ansubarma of Nepal (Shauh, 1995).

Taxation in Unified Nepal (1786-1846)

After unification of kingdom of Nepal, expenses for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fines, forest product tax and mining tax were levied. Local administration was directed “to take whatever is paid willingly by the people.” Taxes were collected from the three levels (Agrawal, 1980).

Royal palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.

Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.

Local: prerequisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special levies like “Darhsanbhet”, “Salami”, “Walak” etc, After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main source of revenue from land was Birta and Kipat.

King Prithvi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat rate system and limited on small Birta owner. There was no taxation of income in the scene of modern income tax.

Taxation in Rana Regime (1846-1950 A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes, which suited the objectives, needs and whims of the ruling Prime Minister, were imposed. No such budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act. The collected taxes were directly deposited into the Prime Minister's Account.

Land tax, custom and excise duties in the form of lump sum, contracts, royalties on felling trees, royalty on supply of potters and soldiers, entertainment taxes were the major sources of revenue. There was no direct tax in the country expect 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.

Rana Prime minister levied taxes for meeting specific expenditure of the royal house hold or extraordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During Nepal-Tibet war (1855/1856), the first Rana Prime Minister Jung Bhadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsher imposed a levy of 1% on the official value of Jagir assignment of government employees in 1891, to finance the transportation of water pipe supply in the capital. Ranoddip Singh imposed a 50% tax on the income made by fishermen in Deukhuri from the sale of fish in 1882.

Income Tax in Modern Nepal

Although there were tax systems in Nepal in ancient time also, the concept of income tax was brought only after the political revolution in February 1951(2007 B.S. Falgun). Increasing role of government's to developmental and philanthropic works, the first budget which had introduced in 1952(21st magh 2008), stated about the introduction of income tax system in Nepal. The first five year plan started in 1956. The planned activities of the government needed huge amount of source and means, so huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959(2016) to impose tax on business profit and remuneration. In 1960(2017) the income tax act named "Business Profit and Remuneration Act, 2017" was made with the provisions of finance ordinance 1959. That was the first Income Tax Act, which had 22 sections. But that act was found narrow and vague. So it was replaced by the Income Tax Act 1962 (2019). That act continued for 12 years and it was also replaced by the Income Tax Act, 1974 (2031). That act was amended for eight times. That tax act was replaced by new Income Tax Act, 2002(2058). This is the fourth income tax act of Nepal.

Gradual Development of Income Tax Act and Laws

Business Profit and Remuneration Tax Act, 1960 (2017 B.S)

The Finance Act 1960, made provisions for the taxation of business profits and remunerations. An ordinance was issued by the king to collect tax. In 1960, parliament of Nepal, enacted, "Business Profit and Remuneration Tax Act 1960(2017)", which consisted of 22 sections. With the enactment of that act, the salary tax or personnel income tax was levied upon those individuals whose personal income exceeded 6,000 per year. In the first three years, the exemption was Rs.7000. An examination of tax files in the Kathmandu District Office disclosed 557 personal income tax files of individuals who had paid taxes in one or more years.

This Tax Act has included following features:

1. Two heads of income remuneration and business profit only has included.
2. Tax on remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year and for the business profit, it was the profit of preceding year.
4. Deductions of expenses were not specified for calculating taxable income.
5. In case of default, fines up to Rs.5000 were prescribed.
6. The tax officers were empowered to assess tax on the basis of best judgment estimates.
7. Profits from industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%.

Because of the starting phase that act was too narrow and vague as well as high discretionary power in assessment of income tax granted to tax officers and various loopholes also were the major shortcomings of that act which cause the Income Act 1962(2019) came into existence.

Income Tax Act 2019(1962)

This act was reformation of the "Business Profit and Remuneration Tax Act, 2017". That act had 29 sections and It was amended in 1972(2029 B.S.). The purpose of this act was not only to increase government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular tax paying habit of the taxpayer. Its features were as follows:

1. The term Income was defined as all kinds of income such as income derived from business, income from profession, remuneration and occupation, house and land rent, income from investment in cash or kinds, agriculture, insurance business, agency and any other sources.
2. The basis of tax assessment was specified on the best judgment estimate of the tax officers.
3. The income tax assessment and collection procedure were specified along with the method of computing net income and certain deductions were allowed to calculate net income.
4. The personal as well as residential status of the tax payer for the tax purposes was defined.
5. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
6. A provision was made for reassessment of tax as well as rectification of arithmetical errors.
7. The act granted the power to constitute the income assessment committee.
8. Provision was made for the installment payment of the tax for the first time.

In changing in environment, it wasn't also effective for later years which made the nation to change that Act. Because of seeing some weakness of that Act to solve them Income Tax Act 1974(2031) came into existence.

Income Tax Act, 1974(2031)

The Income Tax Act, 1974 can be said to be the refined form of Income Tax Act, 1962 (Dhakal, 2057). It had 66 sections. This act has explained various aspects of taxes containing many provisions for taxation. To make it more practical and to eliminate confusing terms this act was amended for eight times. To implement this act, government introduces Income Tax Rule 2039. Some main features are as follows:

1. This act had clarified definition of specific words e.g. income tax, taxpayer, year of income, firm, company, non-resident taxpayer etc.
2. Five heads of income sources were specified as: a, Agriculture b, Business, industry, profession or vocation c, Remuneration d, House and Land Rent e, other sources.
3. Methods of computing the taxable income form each head had been specified with deductions allowable.
4. It made obligatory for taxpayer to register in the tax office and changes should be notified.
5. Carry forward and losses are allowable within subsequent three years.
6. Provision was made for self assessment.
7. Provision relating to tax collection in the advance.
8. Provision relating to correction in the statement of income.
9. Provision made to make agreement for avoidance of double taxation with foreign government.
10. Provision made for penalty and appeal.
11. Provisions made to deductions for life insurance premium and contribution made for philanthropic purposes.

It had applied for 28 years till introducing the Income Tax Act 2058(2002).

Income Tax Act 2058(2002)

Since, 19th Chaitra, 2058 B.S., 'Income Tax Act 2058' has been introduced in

Nepal. This act was brought in Nepal to avoid the following defects of Income Tax Act 1974 (Kandel, 2002:11)

i. Tax was not levied on worldwide income, on capital gain etc. Tax base was to narrow.

ii. Income tax related provisions were given in different act such as Employee Provident Fund Act 1962, Citizen Investment Trust Act 1992, Industrial Enterprise Act 1992, Electricity Act, 1992 etc.

iii. There was not provision for controlling transfers pricing, controlling interest, expenses, controlling of thin capitalization etc.

iv. Income tax is the tax of equity. That means persons having same income should imposed equal amount of tax and person having lower income should imposed equal amount of tax and person having lower income should imposed low tax. But under Income Tax Act 1974, tax was levied on the basis of nature of organization, nature of income, nature of person. Natural person's taxable income had declared on the basis of organization's memorandum and objectives rather than transaction.

v. Penalty rate under Income Tax Act 1974 was very low. It was not appropriate to the present time to control the tax evasion.

vi. After 8th amendment, a provision of self-tax assessment was made. But necessary definition, explanation and legal provision related to tax administration was not made. There was not clarity about the accounting system and design and also lack of high penalty who did not maintain account accordingly.

vii. Act became incapable to fulfill the need of time. So, it became compulsory to replace to it by new act.

Objectives of Income Tax Act 2002:

Following are the main objectives of Income Tax Act 2002 (Malik, 2003;26).

i. To increase the tax coverage.

ii. To make income tax related provisions clear and transparent.
iii. To interlink Nepalese tax system with tax system of other countries.
iv. To make tax system based on account.
v. To minimized tax avoidance and tax evasion.
vi. To make tax system compatible to modern economy.
vii. Separating administrative and judicial responsibilities.
viii. Reducing the scope of discretionary interpretation of the tax administration thereby ensuring simplicity, uniformity and the transparency.
ix. Defining the power as well as authority of the tax administration.
x. Distinguishing taxpayers' violation of civil duties and criminal offences.
xi. Making more effective and responsibility to tax administration.
xii. Making more responsible to taxpayer by emphasizing on self tax assessment system.

Main features of Income Tax Act 2002

Following are the main features of Income Tax Act 2002 (Malik, IBID)

i. Income tax related provisions are includes with in one act.
ii. This act has classified all income into three headings under 3: a) Business, b) Employment c) Investment
iii. Act has clearly specified the amount should be included while calculating a person's gains or profits from conducting business or investment for an income year.
iv. All the expenses are allowed to deduct provided that the expenses are made by the same taxpayer in the same year in the production of income.
v. There is the provision of carry forward of loss for subsequent four years. The act has also provided the facilities to carry backward of

loss for five subsequent years in case of bank, insurance and long term contract.

vi. Incentives are provided to infrastructure constructor hydropower projects and special industries.

vii. Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc are the provision of international taxation.

viii. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.

ix. Capital gain, dividend etc. has brought in tax net.

x. Authorities of taxpayer have specified.

xi. To control the tax evasion, provision of transfer pricing, thin capitalization, divided stripping is made.

xii. Provision of fines and penalties has made more stringent in the new Income Tax Act 2002.

xiii. This act has made a provision of relaxing the submission of income statement by a person who doesn't have taxable income or who has the income from remuneration only.

xiv. There has the special provision for deducting pollution control and research & development expenses.

xv. The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.

xvi. Resident persons are taxed on their worldwide income while non resident persons are taxed only in their income sourced in Nepal.

xvii. The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for class A,B,C and D is based on diminishing balance method but straight line method for class ‘E’ (intellectuals assets)

xviii. The act ha provided the facility of medical tax credit under which resident individuals may claims medial tax credit of 15 percent of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever. (Malik, IBID).

2.2 Meaning of Bank:

From the different kinds of study we can say that the word “Bank” has been derived from French word “Benque” and Italian word “Banca” which means accumulation of money. On the Italian business house, banking was called benchi and the word was received from the German word banch which means bank in English. Thus the first meaning of bank is derived from the Italian and then from German word.

Simply, Bank is a place where the money’s transaction happens. In the other words, bank is an organization that collects the various types of deposit from people. Bank is a mediator of people because it takes deposits in one side and provides the loan to them in other side.

Different scholars have defined bank differently and acts of different countries have their own version of definitions.

As per Oxford Dictionary, “A bank is an establishment for custody of money which it pays out on customers order.”

“Bank is an establishment which makes to individuals such advances of money as may be required and safely made and to which individuals entrust money which is not required by them for use”. (Kinley)

“A Commercial bank refers to such type of bank which deals in money exchange accepting deposit, advancing loan and other commercial transaction except some special function done by other specified bank such as co-operative, agricultural and industrial banks". (Commercial Bank Act 2031)

"Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank". (U.S. law)

"Banking means the accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise". (Indian Banking Company Act 1949 A.D)

A bank is an institution that provides financial service, particularly taking deposits and extending credit, currently the term bank is generally understood as an institution that holds a banking license. Banking licenses are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans, Thee are also financial institutions that provide certain banking services without meeting the legal definitions, also called non-banking financial company. Banks have a long history, and have influenced economies and politics for centuries. The World Bank is derived from the Italian banca, which is derived from German language and means bench. The terms bankrupt and "broke" are similarly derived from banca rotta, which refers to an out of business bank, having its bank physically broken, Money lenders in Northern Italy originally did business in open areas or big open rooms, with each lender working from his bench or table (http:/en.wikipedia.org/wiki/bank).

In conclusion we can say a bank is an institution which accepts deposits from the public and in turn advances loans by creating credit. Therefore it should be differentiated from other financial institutions as they cannot create credit though they accept deposits.

2.2.1 Evolution of Modern Banking

Modern banking originated in medieval Italy despite strong Christian prohibitions against usury according to canon law, Florence, Genoa and Lucca became the centers of the finance and trade 12^{th} and 13^{th} centuries. Bank of Venic was the first bank was established to finance for the monarch in his war. Bank of Barcelona and Bank of Genoa was established at the years 1401 A.D. and 1407 A.D. respectively. The bankers of Lombardy were famous in England. Banking slowly spread in the rest of Europe and by the late 19^{th} century, in Barcelona, Spain, even the clergy was engaged in banking. The German and Swiss rose to pre-eminence in 1480's A.D. In England banking began with the English Goldsmiths only after the 1640 A.D. The bank of Amsterdam was great of the 17^{th} century and enjoyed the prestigious portions.

History of the banking tells us that the merchants are the banker who first evolved in the banking system by trading in commodities than the money. Their trading activities required the remittance of the money from one place to another. For this, they issued different documents which are traded as the money called draft and hundis in the modern days.
Goldsmith is also the developer of the banking system. The Goldsmith accepts various wealth of the public to keep in safe from theft in return Goldsmith takes some charges with them. On the other hand they issue the evidence of the receiving valuables of the depositors which became the easier mode of payment. It became like the modern cheque as a medium of exchange and means of payments. Finally, the money lender of early age also contributed in the growth of banking to large extends.

In spite of the establishment of the bank of England in 1694 A.D., the development of the modern banking institution had wait for another century and four decades until the passage of the banking Act of 1833 A.D. which provided freedom of establishment of the joint stock banks. While banking arouse far early and more rapidly in some countries than in other, it was only in the 19^{th} century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in North and South

America, old banking services were transferred to the new world (Vaidya, S. 1999:21).

But in Nepal, before 1936 A.D. there were no banks at all. A few indigenous moneylenders carried out all the monetary transaction. The need of the masses were not meet by them and as a matter of the fact a very large portion of the production activities of the country still remains completely outside the par view of the organized banking system. So far as the banking development in modern sense in Nepal is concerned Nepal Bank ltd. is the first institutional bank in Nepal which was established in 1937 A.D.

Types of Banks:

Banks are the key features of the economic development. In the modern world they are performing different kinds of activities. A bank can't perform all sorts of functions. So today banks are opened for different purposes. On the basis of their purposes we can divide them in different types which are explained briefly as follows:

Central Bank

It is the guardian of the entire banking system. All other banks are required to comply with instructions of the central bank. It is regulating and controlling authority. Usually, central bank control monetary policy and may be the lender of the last resort in the even of crisis. They are often changed with controlling the money supply, including printing paper money. Bank of England (1964 A.D) is the first central bank. Now, almost all the countries have their own central banks. The central bank of the Nepal is Nepal Rastra Bank (2013-01-14 B.S.)

Commercial Bank

Simply, bank means the commercial bank. Commercial banks are those banks, which perform all kinds of banking functions as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium term credit and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

Industrial Development Bank:

Development banks are established for development of certain sector. Bank which provides loans on the basis of mid term and long term to establish industries and their expansion is called an industrial bank. They not only provide the mid term and long term loan but also technical and other advices as well. In Nepal, Nepal Industrial Development Corporation was established in 2016 under the Nepal Industrial Development Corporation Act 2016, as a first industrial development bank.

Agriculture Development Bank:

Agriculture Development Bank is developed in same manner as industrial development bank but for the development for agriculture sector instead of industrial sector. It is formed for the purpose of improving people's economic welfare and the facilities with dynamic changes and to provide capital and loan to the agriculture sector. Agriculture Development Bank was established in 2024(1969) under the Agriculture Development Act 2024(1968) in Nepal.

Saving Bank

Small saving of numerous households are collected by savings banks and are made available for useful investment, Households deposit their small savings in boxes given to them. Theirs objectives is to encourage thrift and make small savings available for useful investment.

Rural Development Bank

In every country the economic unbalance is the major problem. For the objectives of up-lifting the living standard of the people of rural areas by encouraging them to start the possible income generating occupation, by providing loan without security and providing necessary training and bank servicing, it is established.

Merchant Bank:

Merchant banks were traditional banks which engaged in trade financing. The modern definitions, however, refers to banks which provides capital to firms in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new companies. In Nepal finance companies involve in merchant banking activities.

Student Bank

These types of banks are established in different universities for the purpose of making the saving habit of students. This banking facility gives benefit to the students. The students may be aware to save the money for future during the student life. Such types of banks are not opened in Nepal up to now.

Labor Bank

A bank established with the intention of offering the banking services to Laborers, is called labor bank. It is established with the intention to increase the tendency of savings in labor class. The labor class saves a certain portion of their income to deposit with this bank.

2.2.2 Concept of commercial bank:

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

A commercial banker is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. He also provides a variety of financial services (The New Encyclopedia Britanica, 1985, Vol. 14:60).

According to the Commercial Bank (Act 1974 A.D.), “A commercial bank as one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions”.

Commercial banks are those banks that pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They can not financing in fixed assets. They grant loans in the form of cash credits and overdrafts. A part from financing they also render services like collection of bills and cheques, safe keeping of valuables, financing advising etc to their customers (Vaidya, S. 2001:38).

Hence we can conclude from the above that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are establishes for the mobilization of the saved fund central bank makes certain rules so that the public or the customer of the bank may not under gone on less of their hard earned money by the disinvestment procedure of the bank.

There are several commercial banks operation aim at contributing to trade and commerce of the nation. 18 A class commercial banks including joint venture banks are operating in Nepal, which are as follows:

	Banks:		
1	Nepal Bank Limited	13	Nepal Industrial and commercial Bank Ltd.(NIC)
2	Rasriya Banijya Bank	14	Machhapuchhre Bank Ltd.
3	Nepal Arab Bank Limited(NABIL)	15	Kumari Bank Ltd.
4	Nepal Investment Bank	16	Laxmi Bank Ltd.
5	Standard Chartered Bank Ltd	17	Siddharth Bank Ltd.
6	Himalayan Bank	18	Global Bank Ltd.
7	Nepal SBI Bank Ltd.	19	Citizen Bank International
8	Nepal Bangladesh Bank Ltd.	20	Bank of Asia Ltd.
9	Everest Bank Ltd.	21	Prime Bank Ltd.
10	Bank of Kathmandu	22	Sunrise Bank Ltd.
11	Nepal Credit and Commerce (NCC) Bank Ltd.	23	NMB Bank Ltd.
12	Lumbini Bank Ltd.		

(Source: banking and financial statistics)

Nation can take legitimate pride in the remarkable growth and progress in the banking industry from these banks in operation.

2.2.3 Concept of Joint Venture Bank:

In the contest of Nepal, commercial banks can be classified in to two categories. One of them is domestic commercial bank on which, investment are done by only domestic investors and the other is commercial bank with foreign collaboration which are called Joint Venture Banks on which some part of investment done by the foreign investors.

A Joint Venture Bank is the joining of forces between two or more enterprises for the purpose of carrying out specific operations. So the major objective is to join economic forces in order to achieve some result which each of the patterns could not achieve separately. For joint venture, there should be at least two partners. A prerequisite for joining venture is that it should establish a favorable investment climate. In Nepal, three of dramatic reforms were carried out in 1980s. The measures were: allowing the foreign banks to operate as a joint venture, lifting of central on interest rate and introduction of the action of government's securities.

Government has deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage running local traditional commercial banks to enhance their bankable capacity through competition, efficiency, modernization, mechanization viz. computerization and prompt customer service (Shrestha; 1990:85).

Dr. Manohar Krishna Shrestha in his article, "Commercial banks comparative performance evaluation," concludes that JVBs are new, operationally more efficient having superior performance while comparing with local banks, better performance of JVBs in due to their sophisticated technology, modern banking methods and skills. Their better performance is also due to the government branching policy in rural sector, but having number of deficiencies. So local banks have to face growing constraints of socio-economic, political system on one hand spectrum and that of issues and challenges of JVBs commanding significant banking business on other spectrum (Shrestha;1990:91).

Role of Joint Venture Banks in Nepal:

Joint Venture Banks pose a serious challenge to the existence native banks as an opportunity to modernize themselves and sharpen their competitive zealous (Sharma; 1998, 37). There is a vital role of joint venture banks in Nepal to develop national economy as well as banking sectors, which are indicated as below:

a. Introducing modern management and banking technique

The JVBs have invited a new era of banking in this remote Himalayan country by introducing high technology and efficient methods in the banking business. Other areas of expertise are; foreign exchange transaction by imports and exports, merchant banking, inter bank market for money and securities, arranging foreign currency loans etc. After the establishment of modern management and technique of these banks, other old banks are also introducing computerized banking system. Some of new banks have adopted new techniques like Tele-banking, e-banking and credit card and master card in urban areas. Now they are planning to follow up some developing techniques applied by international banking sectors.

b. Information to foreign investors

For the developed and developing countries, it is very important to import foreign investors. The JVBs might be better place to raise resources internationally for viable projects in undeveloped countries like Nepal, mainly to their credibility. In other words, it is much easier for Nepalese business to procure international markets. Since some years, political system in Nepal is unsuitable, so foreign investors were not interested in Nepal. Although restoration of democratic system, investors are still hesitating to invest in Nepal due to less political commitment. In this context, the publications of JVBs have been playing a vital role for introducing the Nepalese financial rules, policies and practices to the foreign investors.

c. Creation of competitive environment

Before JVBs were introduced, only two commercial banks were operating in Nepal: Nepal Bank Limited and Rastriya Banijya Bank. These two banks had low competition between them and have almost same ser of their customers, working areas and services. Hence, common people, businessman, industry and country as a whole could not get sufficient benefit. After arrival of JVBs, they set a fair, healthy and efficient competition in the banking sectors that ended zeal competition of NBL and RBB. As a result, common people, businessman, industry and the nation as a whole benefited from healthy competition, fair personnel management, high rate of interest in deposit and low rate of interest in credit, quick and quality services, efficient financial performance, etc.

d. Contribution to the national economy

In the present context, Nepal government is adopting liberalized, market oriented and leissez-fair economic program; it requires efficient modern banking system. Comparatively, joint venture banks follow new banking system in every sector. They play significant role to these sectors as well as contribute in national economy from own sector. Thus, new managerial and banking techniques, healthy and competitive atmosphere, new ideas and philosophy, foreign investment and capital and diversified market concepts transfer to other company. A remarkable point is that the investment of mobilized saving in the form of deposit should be directed by the economic need and perspective, not by political need and interest. But in Nepal, political pressure seems to be against it, thus there is need to consider this aspect by the political parties. Financial and legal rules, regulations and practices should be clear and transparent to foreign investors.

2.3 Brief Review of Related materials

Review of literature is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to critical review of the literature helps the researcher to develop a through understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered *(Wolf and Pant, p: 39)*. During the study, various research reports and articles, books, dissertations were reviewed.

2.3.1 Review of Research Report & Articles

A researcher in the field of Nepalaese taxation, **Agrawal, Dr. Govinda Ram (1978),** had conducted a research entitled, “Resource Mobilization for Development: The Reform of Income Tax in Nepal” Published by CEDA in 1978. The main objective of his study were to examine the problem of growing resource gap in Nepalaese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection of income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc.

In the research work he analyzed various aspects of income tax system of Nepal such as role of income tax, legal aspect of income tax and administrative aspect taxation in Neepal. The main reasons for growing resource gap he had included in his report were increasing cost of maintenance and debt servicing burden, increasing government investment in public sector enterprises and rising rate of inflation. He also added that, poor utilization of natural resource base, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration, lack of adequate and reliable data base and unwanted pressures from best interest group etc, were the major constraint in resource mobilization.

As per the study, the main causes of administrative problems were under delay in tax assessment, failure to locate new taxpayers, failure to maintain proper records by tax offices etc. He also concluded that mobilization of additional resources from domestic sources to finance rising expenditure is the better options to fulfill resource gap. Domestic resource can be mobilized either through tax or through non-tax measures. Taxation contributes more than 80% of total government revenue in Nepal. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.10.

Lastly he had recommended mobilizing additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax and income tax should be reformed in Nepal etc.

United Nations had published a policy research on the topic “Corporate Tax Structure and Production” in 1993 which was prepared by Jeffrey Bernstein and Anwar Shah. They had conducted their research taking Mexico and Pakistan as a sample. As per their study investment tax credits, investment allowances and accelerated capital consumption allowance were most effective promoting investment than more general tax incentives such as corporate tax rate reduction. From that research, they reached at the conclusion on the elasticity of rental rate of capital which respect tax instrument, on the tax sensitivity of capital stock and on the benefit-cost ratio.

Kandel, Dr. Puspa(2004), Raj had written an article entitled, “Are Tax Incentive Useful?” published in journal of Finance and Development, ‘Rajaswa’, Volume 1 2004 April. In that article he had tried to seek the answer from the survey of carious empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promote the investments or not. But he argued that most of t developing countries need tax incentives.

As per the empirical studies done in various countries the conclusion is that among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

He further added that the survey of the studies indicate that accelerated depreciation system had positive impact on investment. The work of reducing tax rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, if Nepal wants to go to tax incentives again, she should adopt investment allowance or investment tax credit, not the full tax holiday in future.

2.3.2 Review of Books

Agrawal, Dr Govinda Ram,(1980) had written a book entitled, “Resource Mobilization in Nepal” published by CEDA. The book was concerned with resource mobilization in Nepal, especially through the reform of income tax. The book had been divided into eight chapters; the first chapter deals with resource mobilization through taxation in developing nation with special reference 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 perspective. The fourth chapter deals with structure of Nepalese taxation.

In the fourth chapter related to tax structure, the writer had concluded that taxation trend in Nepal have 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.

He further added that the design of tax structure must take into account the tax objectives. The tax structure of Nepal has failed to take account to the prevailing economic structure and patterns of income distribution. The low share of direct taxes is a clear indication of the ineffective use being made of taxes to effective equitable distribution. This is the result of policy decisions taken into past as to design the tax structure.

Dr. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administration, tax lawyers and accountants and tax payers of different parts of Nepal. From that 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 taxpayer's education, complex procedures and defective tax information system.

Khadka, Dr. Rup Bahadur (1994), had written a book entitled, "Nepalese Taxation: A path for Reform", in 1994. The book dealt with both national and international taxes. The writer had detaily 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 of the presumptive basis, basic individual taxation and shift from itemized to flat system of standard expenses, experiment with and 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 carious measures for its improvement. The book had not been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Mallik, Bidhyadhar (2003) had written a book entitled, "Nepalko Adhunik Aayakar Pranali" in 2003. This book especially deals with the thorough analysis of income Tax Act, 2058 with example. Every section of income tax act has been clarified with suitable examples. He had written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by income tax Act, 2058 about tax base, computation of income, tax exempt amount, deduction allowable, accounting of tax, capital gain, retirement saving and tax, dividend tax, capital gain, international taxation and tax auditing have been clarified precisely in his book, similarly, the book had also explained about tax administration, documentation, information collection payment of tax, installment tax, income statements, tax-assessment, tax collection, Review and appeal, fees and interest, fine and penalties, tax rates and determination of provision of depreciation etc.

Bhattari, Ishwor and Koirala, Girija Prasad (2003) had published a book entitled "Tax Laws and Tax Planning". It had explained about the income tax act Nepal along with the VAT and Tax planning. This book has been designed based on the syllabus of the MBS. They had included notes to remember for emphasized important concepts and key terms at the end of each chapter, from which the user easily know the taxation words. Mainly it has been divided into three parts. In the first part explained about introduction of income tax, income tax provisions of tax assessment for individual and entities, methods of tax assessments and other chapter with numerical and theoretical examples and self test problems which are used for tax assessment. Second part related with VAT and third part is related with tax planning. It has been explained the income tax but it also not described the drawbacks of this act.

Dhakal ,Dr. Kamal Deep (2004) had published a revised edition of book named "Income tax and house compound tax law and practice with VAT". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book was fully based on the syllabus of BBS third year and MBS second year. This book was published before coming new income tax act 2002 and it is very useful to know the general information and legal provision of income tax act 1974. It was very informative because consisting of historical background of income tax, features of income tax, relation of income tax acts with other acts and laws and different topics in different chapters.

Aryal K.P. and Paudel (2004) had written a book entitled, "Taxation in Nepal" in 2004. 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 revenue nature expenses and income 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 proper bibliography and adequate appendix where various income tax, house and land rent and VAT related forms, schedules and format had been described. Lastly, he had recommended mobilizing additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax and income tax should be reformed in Nepal etc.

2.3.3 Review of Thesis

Siwakoti, Chudamani (1987), presented a dissertation entitled "Analytical study of Income Tax in Nepal" in 1987. His study has focused on role of income tax in Nepal. Income tax structure, personal management aspects of tax administration, problem of income tax administration etc. he found that the percentage of taxpayer to the total population is very low, only 0.25%. Although the number of income taxpayers is increasing each year, most of the country from income tax comes from a little group or persons. Usually the tax assessment is based mainly on the best judgment of the tax officers and committee so the due consideration to the books of accounts have been found negligible collection of income tax has been increasing gradually an average rate, of 6.54% short of well trained and experts personal in sufficient number, absence of training and development opportunities for tax officer. In his study he suggest that explain tax law, the income tax administration should be made honest, efficient trained and effective, good information system should be adopted among the tax department tax offices financial institution and customs office to obtain information regarding tax-payers, computer and other scientific equipments should be used in all tax offices etc.

Bhandari ,**Hari Bahadur (1994)** presented a dissertation entitled "contribution of Income Tax to the Economic Development of Nepal; with reference to Kathmandu and Pokhara Valley" in 1994. He tried to examine the historical background of income tax in Nepal, trend of income tax collection and tax revenue, Nepalese income tax structure, contribution of income tax to the economic development of Nepal and identify the factors to increase tax paying habit of income tax payer. He has found that income tax as a means of raising domestic resources, poor tax paying habit of Nepalese people, the role of income tax for the economic development of Nepal is not significant. Lack of sufficient tax information and administrative in-efficiency are the major problems facing by Nepalese tax payer.

He has concluded an imperial study with 18 respondents. He has found that there are no significant differences among the responses of the various respondents with respect to the income ax as a means of raising domestic resources; there is no significant difference among the responses of the different respondent with respect to the poor tax paying habit of Nepalese people. He suggests the following points to make effective tax administration. The salaried and incentives should be increased in accordance with the inflation. In the recruitment and selection of personnel priority should be given to those persons who have good background of management, economics and statistics, system of reward and punishment should be effectively based under the better and poor performer respectively.

Bhandari (1994), had tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated targets because of the poor tax paying habit of Nepalese tax payer, poor tax administration system, wide spread evasion of income tax. He has suggested to make effective personnel management, increasing habit of tax paying of Nepalese tax payer through proper tax education and better public communication system, minimize tax evasion, reduce tax collection cost.

Shauh (1995), had conducted a research on the topic, “Contribution of Income Tax in National Revenue of Nepal”. His research problems were the increasing resource gap and how income tax can be the means for resource mobilization. The main objective3 of this research were; to show the contribution of income tax in government revenue, to show the resource gap in Nepalese finance, to highlight the importance of income tax as a source to avoid financial deficit, to find out the rate and per capital burden of income tax and trend and structure of income tax in Nepal.

His research design was historical and descriptive. He had used only secondary data of 21 years from 1974/75 to 1994/95. Data collection and analysis procedures were; consulting the required governmental and non-governmental offices, and simple arithmetic rule chart and diagrams were applied to analyze data. From that research he had found out and concluded that income tax can be the vital source for internal resource mobilization to fulfill resource gap. Only 0.35%of total population came under the categories of tax payers in Nepal during his research period. He found that collection of income tax was gradually growing and total national revenue were 9.95% and 7.94% respectively. Similarly, he also concluded that individual tax payer had higher contribution in income tax than salaried tax payer.

Tripathee (1995), had presented a thesis entitle, “Income Tax System in Nepal and Some Potential Areas for Reform”. Deficit annual budget and deficit financing of the nation were his main concern of the study where he had tried to show the tax structure in Nepal, role of income tax in Nepalese economy, income tax administration and tax evasion in Nepal along with reforms.

Mr. Tripathee had conducted his research using the 15 years data since 1974/75 to 1989/90. Primary data were also used which were collected through opinion survey within Kathmandu valley. Simple statistical tool such as mean and time series were used to analyze the data, graphics, charts and diagram were also used as necessary.

From the research, he had concluded that income tax from individual sector had provided maximum contribution in income tax structure and about 80% of total revenue was collected through taxation. Tax evasion had increased due to poor tax administration and delay in tax assessment process. Lastly, he had recommended levying tax on agriculture income, tax holiday should be given to the firms and administration should be sound and efficient.

Shakya (1995), had presented his thesis entitled, “Income Tax system in Tax Structure of Nepal” and had tried to give origin and meaning of income tax with its historical review, structure of government revenue in Nepal, importance of income tax, contribution of income tax to total tax revenue and total revenue.

In his study, he stated that the structure of the government revenue in Nepal is a composition of tax revenue and non–tax revenue. The tax revenue is the most important sources of government revenue that occupies 80% share in the total government revenue in the year 1993/94. The ratios of income tax to GDP, total revenue, total tax revenue and direct tax revenue had an increasing trend. But the increasing rate was low in comparison to other countries. He further added that the change in tax rate and exemption limit had made the assessment of income tax more complicated which had given plenty of opportunities to evade income tax which exist as a major problem.

Lastly, he had recommended many suggestions for the sound and effective income tax such as honest and effective tax administration scientific method in tax collection and encouragement of self-assessment of tax.

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

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

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

Bhattarai, Raj Kumar (1997) presented a dissertation entitled "Effectiveness of Corporate Income Tax in Nepal" in 1997. He tried to find out the role of corporate income tax in government revenue' condition of corporate income tax payer, find out the problems and difficulties in corporate income tax practice in Nepal. He found that the government policies, Acts, Rules and Regulation concerned with the corporate income tax was not effective in increasing tax paying habit in Nepal. Corporate tax planning was not effective. The corporate income tax payers were not satisfied with the existing rate of corporate income tax. He suggested that prepare separate corporate income tax Act, Rules and Regulations considering the elements of the system and maintain stability; Design and develop job description and specification of tax personal on the basis of specialization, control forwards and backwards shifting of corporate income tax. Decrease corporate income tax rate to 17% as expected by the tax payers.

Poudyal, Karna Beer 'Kshetry' (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 the majority (90%) of the companies (sample size of the study) considered tax factors while selecting the line of business. He also found the positive correlation (+0.8) between tax rate and debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets and corporate tax was (+0.75) in small companies and (+0.12) in medium size companies. As against this, in large companies, there was 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 companies should set up separate tax section to get maximum benefit of provisions, provided by tax law. However, tax assessment under the best judgment 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 for resident and no-resident companies

K**andel (2000)**, presented the Ph. D. thesis entitle, "Corporate Tax System and Investment Behavior in Nepal". He undertook the research work to find out the problems relating to corporate tax, which blocks the development of the private investments. The main objectives of his study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based 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 to the METER. According to him, the statutory tax rate deduction had impact on private investments bye 60% to 20%. In his 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: debt: mix and equity i.e. it was not much destructive. The relationship between inflation rate and effective tax burden in Nepal was negative.

Timilisina Satyendra (2001), presented a dissertation entitled "Personal Income Taxation in Nepal: A Study of Exemption and Deduction" in 2001. He tried to analyze the present system of tax exemption and the deductions: measure the extent of exemption limit provided to individual and family and examine its appropriateness to substance requirements. Analyze the existing nature of standard deductions. He found that the number of tax-payers paying personal income tax has increased bye 114.13% from 1990/91 to 1999/2000 at the average of 12.68% each year. Ratio of income tax to the gross domestic product is low. The ration of income tax to GDP has reached to 1.99% in 1998/99 and the same year the ration of personal income tax is only 0.97%.

From his empirical analysis, he found that present income tax exemption limit was in appropriate, 70% of respondent refer this and, 70% of respondent suggest for increasing the proportion of corporate tax.

He recommended that government has to provide the family tax exemption in such a way that it would consider the number of family members. The exemption limit must be provided according to the number of dependents. The present tax base must be widened by including the incomes from agriculture sector, capital gains and other sources. The problem of tax evasion can be solved by efficient governance.

Poudel (2002), presented a dissertation entitled 'Income Taxation in Nepal: A Study of its structure and Productivity,' The objectives of her study were" to analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of Voluntary Disclosure of Income Scheme (VDIS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal showed and annual growth of 16%, indirect taxation has more significant contribution in total tax revenue, income tax occupied the first rank among the direct taxes, personal income tax slabs ha been changed radically from seven slabs in 12975/76 to two slabs in 1999/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

Lamsal, Bharat Kumar,(2002) presented a master thesis report entitled "A Study on Contribution of Income Tax on Government Revenue" in 2002. He tried to explain in brief about the structure of government revenue in Nepal, contribution of tax and non tax revenue, role of income tax in economic development of Nepal, structure of income tax rate in Nepal, Income tax assessment procedure, and contribution of income tax on GDP etc. In his study, he found that problem of income tax assessment was less consciousness of tax payer, fine and penalties was a most effective tools to increased the tax paying habit, the share of income tax as a percentage of total tax revenue was increasing from 9.67% to 21.98%, income tax and the personal income tax's share are increasing every year.

Kafle Suresh (2004) presented a dissertation entitled "Income Tax Contribution from Nepalese Public Enterprises with Reference to Nepal Electricity Authority" in 2004. He tried to examine the effectiveness of income tax revenue collection form PEs and major problem of income tax system and he also tried to find out the contribution of income tax from Nepal electricity authority to total revenue and total income tax revenue on national revenue of Nepal. He found that income tax is increasing every year. The contribution of income tax to total tax revenue was 8.36% in the fiscal year 1991/92 and it increased up to 22.64% in fiscal year 2001/02. Income tax revenue to GDP ratio, income tax revenue to total tax revenue and income tax revenue to direct tax revenue ratio is 2.2%, 22.64% and 84.02% respectively n the fiscal year 2001/02. The contribution of income tax from Nepal electricity authority to total income tax revenue has also been fluctuation the average contribution is 2.57%. In the composition of income tax from Nepal electricity authority on the income tax from public enterprise has shared 8.5% in an average. Lack of clear, transparent and progressive economic policy is the main reason for unsatisfactory with sound and effectiveness of income tax system of Nepal.

Chudati,**Baburam (2004)** presented a master thesis report entitled "Effectiveness of Nepali's Tax Policy on Various Business Sector" in 2004. He tried to explain in brief about the tax system of various business sectors. He had found that 80% revenue comes from direct and indirect tax out of total revenue while only 20% revenue comes from nontaxable source like duties, fines, penalties, charges, royalties and so on, Nepalese tax policy was sound but poor implementation and some technical weak. He suggest that Nepalese tax policy should be immediately update and government should establish sufficient number of tax collection counter.

Pudasaini, Dipendra (2006) presented a masters degree thesis entitled " Income Tax Management in Nepal" in which he has analyzed the present scenario of income tax management of Nepal. He has included the effectiveness of tax administration, problems of income tax management in Nepal, he found that income tax system of Nepal is suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious of tax payers, widespread evasion and avoidance of income tax, un scientific tax assessment procedure etc. and he has suggested to establish separate department of income tax to specialized in the matter of income tax.

2.4 Research gap

There is only few research works conducted in Income Tax Contribution by Joint Venture Bank in Government Tax revenue. But such Income Tax related research work has not provided appropriate solution about effective implementation of

Income Tax system in Nepal. Ruined practicing scenario was the main problem of Income Tax system. Researchers have provided general recommendation only. In this research researcher has tried to fulfill such research gap. For better implementation of Income Tax needs to be specific recommendation Researcher wants to eliminate research gap exist in the past and explore for in depth information, which can be helpful better implementation of Income Tax phenomenon.

CHAPTER - III
RESEARCH METHODOLOGY

General

This chapter refers to the overall research method composing the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also was the descriptive part based on both technical aspect and logical aspect; on the basis of historical data performs a well- designed quantitative research is descriptive, analytical as well as exploratory in nature tools. This research is descriptive analytical as well as exploratory in nature. For this purpose data has been managed in proper form for interpretation and explanations whenever necessary. Details research methods are described in following headings.

3.1 Research Design

Research design means the definite procedure and techniques, which guides the study and profound ways for research viability. Research design is the main part of the thesis or any research work. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research question and to control variances. The research design opted for the study is basically descriptive one. Permanent data and information required for the study are collected, evaluated and analyzed systematically to arrive at a certain conclusion. The main objectives of the study are to analyze the Income Tax contribution by Joint venture banks in National revenue of Nepal.

3.2 Period covered

The present study covers the time period of five years for the purpose of trend analysis i.e. F/Y 2058/59 to 2063/064.

3.3 Data collection procedure

As the study was based on primary data information, was collected developing a scheduled questionnaire and distributing it to manager, proprietors and finance chief that were available. All the questions were "tick marks" question, included in the questionnaire. A set of questionnaire related to the objectives of the study has been prepared for 6 respondent companies each. Some questionnaires were sent through fax service, some through direct visit to the respondent companies, among the questionnaire distributed, only 5 were answered. Similarly, some additional information was also collected through interview and personal meeting with the respondents.

3.4 Method of analysis and presentation

Methods of analysis are applied as simple as possible. Result are presented in tabular form based on which clear interpretations are given Detail calculation, which can not be shown in the body part of the report, are presented in appendices at the end of this study. To make this study simpler and easily understandable chart diagrams and graphs have been used. And finally summary, conclusions and recommendation are presented.

3.5 Tools used

To analyze the selected data some financial and statistical tools are used. For the collected data's are managed, analyzed and presented in proper table and formats. Those tables and formats are interpreted and explained wherever necessary. The financial and statistical tools are used for variance analysis, correlation, regression, percentage, graphs, diagram, charts, tables etc have been used as percent required.

3.6 Research variables

Mainly the research variables of this study are related with sales statement of NLL, budgeted and actual sales in units and rupees, sales trend, pricing trend are the research variables of this study.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Government Revenue Structure in Nepal:

Government of any country of the world needs adequate budget for the development activities, operation of administration, maintaining peace and security and other public welfare activities. The required budget is collected from various sources. Generally, the revenue collected by the government from various sources is known as public revenue or public receipt or national revenue or national exchequer.

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect is the composition of customs, excise, sales tax/VAT and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities in the form of fees, fines and penalties etc. The government revenue is therefore, the combination of tax revenue and non-tax revenue consisting various sources.

Mostly, incomes of the government are custom duty, excise duty and sale tax or VAT of indirect tax group. Custom duties consist of export, import, Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial production. The other indirect taxes, which are also important in government revenue, are contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals' and organizations income or profit.

Income tax is the composition of income or profit of public enterprises semi-public enterprises, private corporate bodies, individual and remuneration. The house and land registration is also the part of direct tax.

Non-tax revenue of the government includes various registration fees, income from sale of government services and product, Dividend received royalties, principal and interest received and miscellaneous. The registration fees include firm registration, vehicle registration, and license registration and so on. Water charge, electricity charge, telephone charge, post services, income from education, Income from food, agriculture and income from transportation are the major factors of sales of government services and products. Government receives dividends from financial institutions, trading companies, industrial enterprises and service-oriented organizations. Similarly, royalty from mine is also the non-tax revenue of the government.

The government revenue includes different items. As shown in table no 4.1 more than 75% has been collected from tax revenue. The staring year of analysis (the fiscal year 2000/2001) had collected 77.29% tax revenue. In the tax revenue, indirect tax revenue has been occupying higher share (percentage) than direct tax revenue.

The custom duty is one of important items of indirect tax group. It has been covering major place in the indirect tax as well as whole items of government revenue. In the fiscal year 200/2001, the share of custom duty was 25.21% of total government revenue. This has really taken first position in revenue sources. Then it increased to 25.67% in the fiscal year 2001/2002. The trend of custom duty is not varying from beginning to till now. The rate of realization of custom duty decreased to 25.09% in the fiscal year 2002/2003 and there was only difference of few % in the collection of custom duty. From the fiscal year

2003/04 to the beginning eight month of fiscal year 2005/06 it is in decreasing trend. It is 24.96% in fiscal year 2003/04 and decreased to 22.40% in the fiscal year 2004/005, which is decreased by 2.56.

The sales tax / VAT have been slightly being volatile. In the fiscal year 2000/2001 it was 22.98% i.e. Rs 98549 million. It had taken second position in that year. It increased to 24.68% in the fiscal year2001/2002. it again decreased to 23.73% in the fiscal year 2002/2003. it is 26.83% in the fiscal year 2005/06). It is increased by 2.89% from the fiscal year 2003/004 to fiscal year 2005/006.

The income tax with other direct taxes has been in increasing order. The rate of realization of this direct tax in the beginning (i.e. 2000/2001) was 10.56% of total government revenue. It was increased to 11.83%, 15.74%, 17.48%, 18.50%, 19.52%, in the fiscal year 2001/002, 2002/003, 2003/004, 2004/0005, 2005/006 respectively. Again it follows

Table: 4.1

Composition of Government Revenue in Nepal.

(Rs in Million)

Fiscal year	2000//2001		2001/002		2002/003		2003/004		2004/005	
Revenue head	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Customs Duties	10813	25.21	12552	25.67	12659	25.09	14237	25.32	15554.8	24.96
Excise	3127.6	7.29	3771	7.71	3807	7.55	4785.1	8.51	6226.7	9.99
Sales Tax/ VAT	9854.9	22.98	12.48	24.64	11964	23.72	13460	23.94	14478.9	23.22
Others	404.8	0.94	334.6	0.68	303.3	0.60	0	0.00	0	0.00
Land Tax & registration	1015.9	2.37	612.9	1.25	1131.8	2.24	1414.3	2.52	1697.5	2.72
Income tax with others	7935.6	18.50	9547	19.52	9465.7	18.76	8691.4	15.46	10215.1	16.39
Total tax revenue	**33152**	**77.29**	**38865**	**79.49**	**39331**	**77.97**	**42587**	**75.74**	**48173.0**	**77.28**
Non-tax revenue	9741.6	22.71	10029	20.51	11115	22.03	13643	24.26	14158	22.72
Total revenue of government.	42894	100.0	48894	100.0	50446	100.0	56230	100.0	62331	100.0

Source: Quarterly Economic Bulletin (2002) No.3 NRB.

Economic Surveys (MOF).

Statistical Abstracts (2000) DOT, MOF

the up down pattern it was 18.76% in fiscal year 2002/003, 15.46% in 2003/004, 16.39% in 2004/05, 16.07% in 2005/006. The decreasing trend is mainly due to the depression in economic activities, due to political crises i.e. mainly security problem. The big business houses and industries having foreign investment were highly affected from insurgency.

The excise duty is also the indirect tax, which is imposed in the liquor production and other industrial production. It has been decreased from beginning. It was 7.29% in the fiscal year 2000/001 with the amount of Rs 3127.6 million.. It was collected 7.71% of total government revenue in the fiscal year 2000/001 but again slightly decreased in the fiscal year fiscal year 2001/002 by 0.16% being 7.55% realization of total revenue. But it slightly increased to 8.51% in the fiscal year 2003/004. It again increased to 9.99% of total government revenue in the fiscal year 2004/005. It was 9.20% in the fiscal year 2005/006 and increased to 10.02% of total government revenue in the beginning 8 month of fiscal year 2006/007, the amount of which was Rs 415.65 million.

The land tax that includes land registration fee is also a kind of direct tax. The share of this tax in the total government is not in constant percentage. The share of this tax was 2.37% of total government revenue in the fiscal year 2000/001, which was decreased to 1.25% in the fiscal year 2001/002. Again it increased to 2.24% in fiscal year 2002/003, 2.52% in 2003/004, 2.72% in 2004/005, 2.43% in 2005/006.

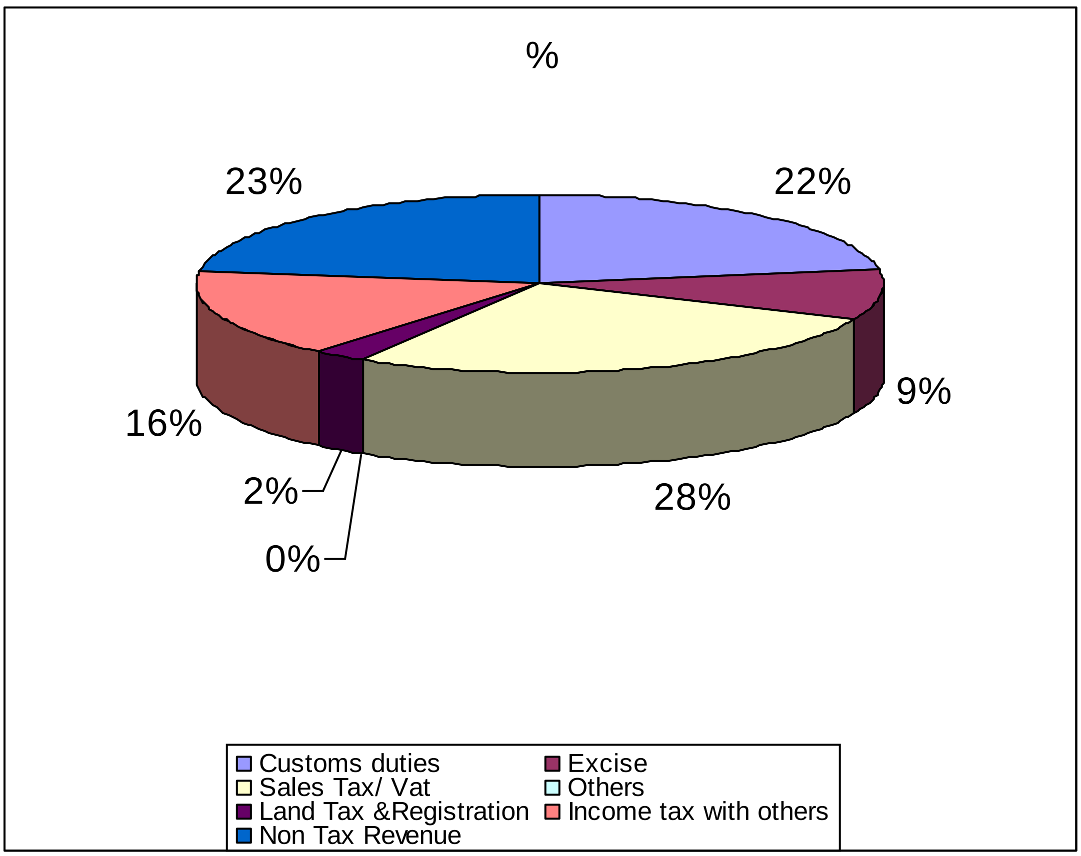
Thus the tax revenue is the major contributing source of total government revenue. But non tax revenue has also been contributing in considerable amount among other individual revenue items. It has captured second and third position in the different fiscal years when comparison is made among all revenue items individually.

Miscellaneous indirect taxes, which include contract tax, entertainment tax, hotel tax, air flight tax was also contributing to the national receipt. Even though they had been contributing in small rate they had been in decreasing trend. It was 0.6% in the fiscal year 2002/003. This tax contributed the nominal and almost negligible amount of tax of the total revenue in the recent 2 fiscal years.0.00%in fiscal year 2004/005 and 0.14% in fiscal year 2005/006.

In conclusion, the composition of government revenue has shown the variation in different types of tax and non-tax revenue items. The income tax is in increasing order from beginning of analysis and it seems to be progressive in nature. This is denoted by higher growth rate of this revenue item.

Figure: 4.1

Composition of Government Revenue in Nepal for Fiscal Year 2005/006



Note: Approximate % figure is taken.

4.2 Contribution of Tax Revenue in Total Revenue

National exchequer is the composition of tax revenue and non –tax revenue. Tax revenue has also direct tax and indirect taxes. Customs, excise duty, sales tax/ VAT and other miscellaneous are the main revenue items of indirect tax revenue. Direct tax, however, is the composition of income tax, land tax, property tax, interest tax and other direct taxes. Non tax revenue of the government is also important revenue source that includes different types of fees, shares, dividend, royalty and principal with interest from companies and corporations. Sale of fixed assets and mint are also components of non tax revenue. Table no 4.2 shows the comparison between tax revenue and non tax revenue collection.

Table: 4.2

Contribution of Tax Revenue in Total Revenue

(Rs in Million)

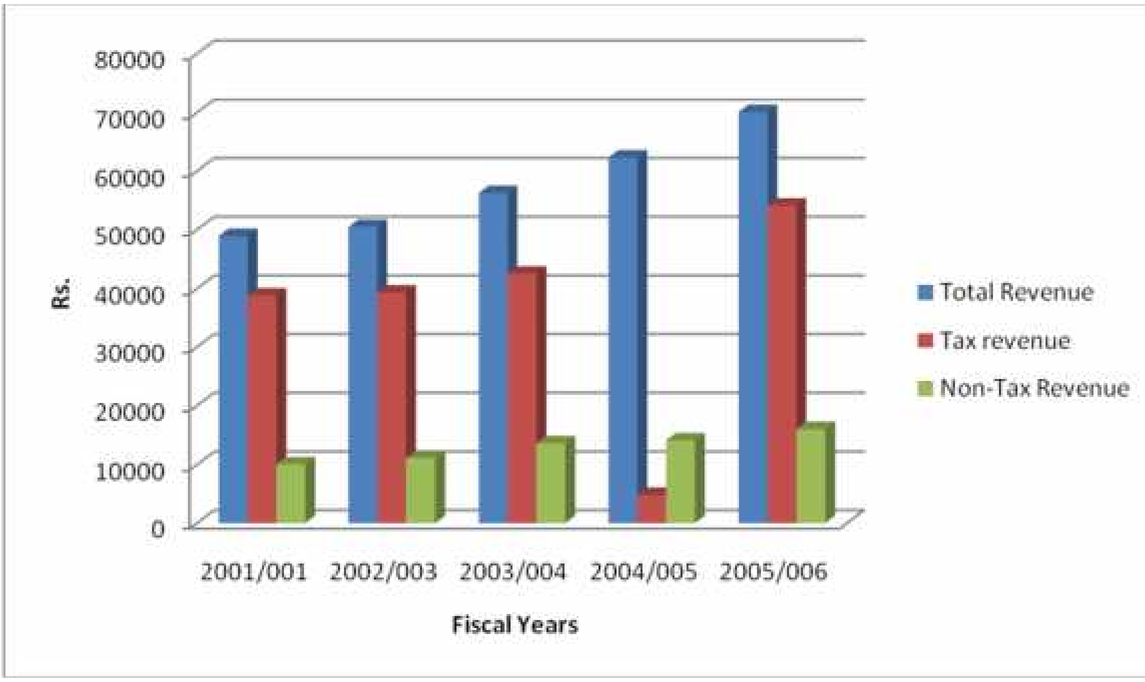
Fiscal year	**Total Revenue**	**Tax revenue**	**%**	**Non-Tax Revenue**	**%**
2001/001	48894	38865	79.49	10029	20.51
2002/003	50446	39331	77.97	11115	22.03
2003/004	56230	42587	75.74	13643	24.26
2004/005	62331	4817.30	77.88	14158	22.72
2005/006	70122.7	54104.70	77.15	16018	22.85
Average Collection			77.64		22.47

Source:

1. *Quarterly economic bulletin (2002) No.3, NRB.*
2. *Economic Survey 2004/005 and 2005/006 MOF.*

Figure: 4.2

Contribution of Tax Revenue in Total Revenue



As shown in table no 4.2 tax revenue contributed more than 77.64% in the total revenue realization. In the fiscal year 200/001, It was 79.49% the ratio of non tax revenue collection in the fiscal year 2000/001 and 2001/002 were 20.59% and 22.03% respectively which were relatively very low than tax revenue realization.

Tax revenue contributed 79.49% , which was highest realization of tax revenue than in other fiscal year till 2000/2001. In that year the tax revenue was realized up to Rs 25942 million out of total revenue of 32938 million. In 2001/002 it was 79.49% (Rs 38865.1 million). However it is decreased to 77.79% in fiscal year 2002/003. Again it decreased to 75.73% in the fiscal year 2003/004. It was 77.88% of total revenue in the fiscal year 2004/005 and 77.15% in the fiscal year 2005/006 .

The analytical comparison thus showed that the tax revenue is contributing more than that of non tax revenue. Tax revenue decreased to 75.74% the lowest in the fiscal year 2003/2004, when the non tax revenue was realized 24.26% highest realization rate in the same fiscal year. This analysis also showed the average revenue collection through tax revenue contribution of tax revenue was 77.64% where as the contribution made by non tax revenue 22.47%. This interpretation is also understood through the given chart No.4.2 which visualizes the same matter.

4.3 Share of Direct Tax on Total Tax Revenue and Total Revenue:

Tax revenue is divided into two classes of is direct tax and other is indirect. A direct tax is such type of tax, which is imposed to the person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. This type of tax cannot be realized by the tax payers from other person. He must pay it from his own pocket. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax and other are the best examples of direct taxes. On the other hand, an indirect tax is such type of tax, which is imposed to any person without direct collecting from him.

An indirect tax is imposed on one person but paid partly or wholly by another. Sale tax/VAT, entertainment tax, customs, excise duty are the good examples of this tax. Thus direct tax is any tax which is imposed to a person who bears its economic impact by himself, indirect tax is any tax in which the economic impact is passed to other person for instance, government imposes value added tax on goods sold, but the amount of VAT is collected from customers. Here tax is imposed to sales man however, the buyer pays tax indirectly.

Table No. 4.3 shows the contribution ratio of direct tax on tax revenue and total revenue of the government. This relationship is also presented in the chart

4.3. The initial share of direct tax on the total revenue was 20.78% for the fiscal years 2001/2002 its rise to 21.01% in the fiscal year 2002/03. Again it went down to 17.97% in 2003/004, 17.57% in the fiscal year 2004/005.the share of direct tax on total revenue was 18.49% in 2005/006 and 18.68% in first eight month of the fiscal 2006/007.. in the fiscal year 2002/003 the amount collected from direct tax was Rs 10597.5 million that was increased by Rs 438.1 million than in preceding year. In the same year the ratio of direct tax on total revenue increased from 17.97% to 18.49 % where the ratio of it's on the total tax revenue increased by 1.63% in the fiscal year 2005/006.

Table 4.3

Ratio of Direct Tax in Total Tax revenue & Total Revenue

(Rs in million)

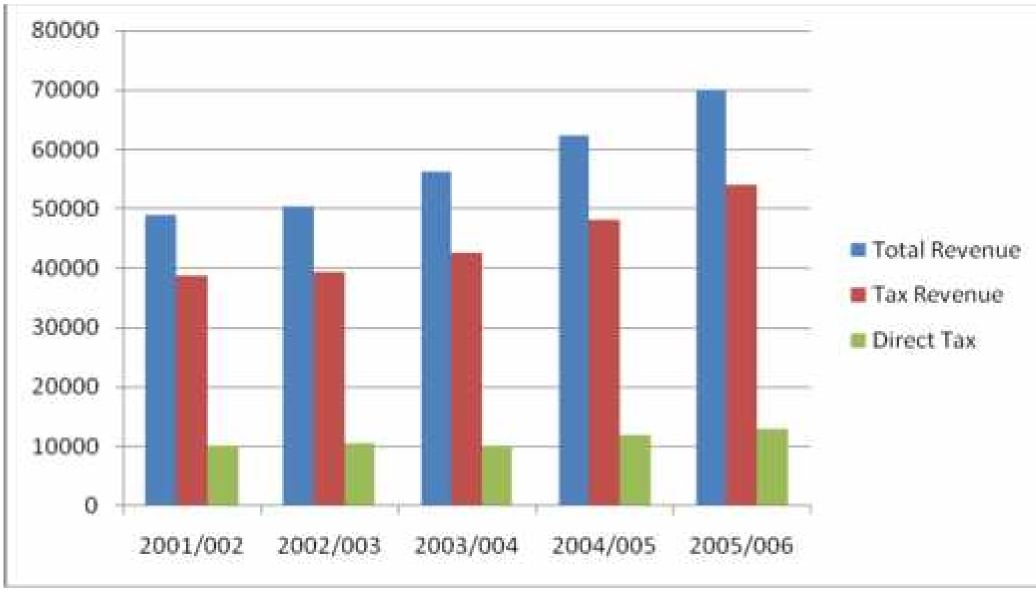
Fiscal year	Total Revenue	Tax Revenue	Direct Tax	Direct Tax on total revenue	Direct Tax on Tax Revenue
2001/002	48894	38865.1	10159.40	20.78	26.14
2002/003	50446	39330.6	10597.50	21.01	26.94
2003/004	56230	42586.9	10105.70	19.97	23.73
2004/005	62331	48173	11912.6	17.57	22.34
2005/006	70122.7	54104.7	12971.8	19.49	23.97

Source:

1. *Quarterly Economic Bulletin, 2002, No 3 NRB.*
2. *Economic Surveys 2004/005 & 2005/006, MOF.*

Figure No: 4.3

Ratio of Direct Tax in Total Tax Revenue & Total Revenue



4.4 Share of Indirect Tax on Total Tax Revenue and Total Revenue:

An indirect tax is imposed on one person but paid partly or wholly by another. Sale tax/VAT, entertainment tax, customs, excise duty are the good examples of this tax. Thus direct tax is any tax which is imposed to a person who bears its economic impact by himself, indirect tax is any tax in which the economic impact is passed to other person for instance, government imposes value added tax on goods sold, but the amount of VAT is collected from customers. Here tax is imposed to sales man however, the buyer pays tax indirectly.

Table No. 4.4 shows the contribution ratio of indirect tax on tax revenue and total revenue of the government. This relationship is also presented in the chart 4.3. The initial share of indirect tax on the total revenue was 58.71% for the fiscal years 2001/2002 it decreased to 56.95% in the fiscal year 2002/03. Again it went up to 57.76% in 2003/004, 58.17% in the fiscal year 2004/005.The share of indirect tax on total revenue was 58.65% in 2005/006 and 57.48% in first eight month of the fiscal 2006/007. In the fiscal year 2002/003 the amount collected from indirect tax was Rs 28733.1 million that was decreased by Rs 28.6 million than in preceding year. In the same year the ratio of direct tax on total revenue decreased from 58.71% to 56.95 % where the ratio of it's on the total tax revenue increased by 1.23% in the fiscal year 2005/006.

Table 4.4

Ratio of Indirect Tax in Total Tax revenue & Total Revenue

(Rs in million)

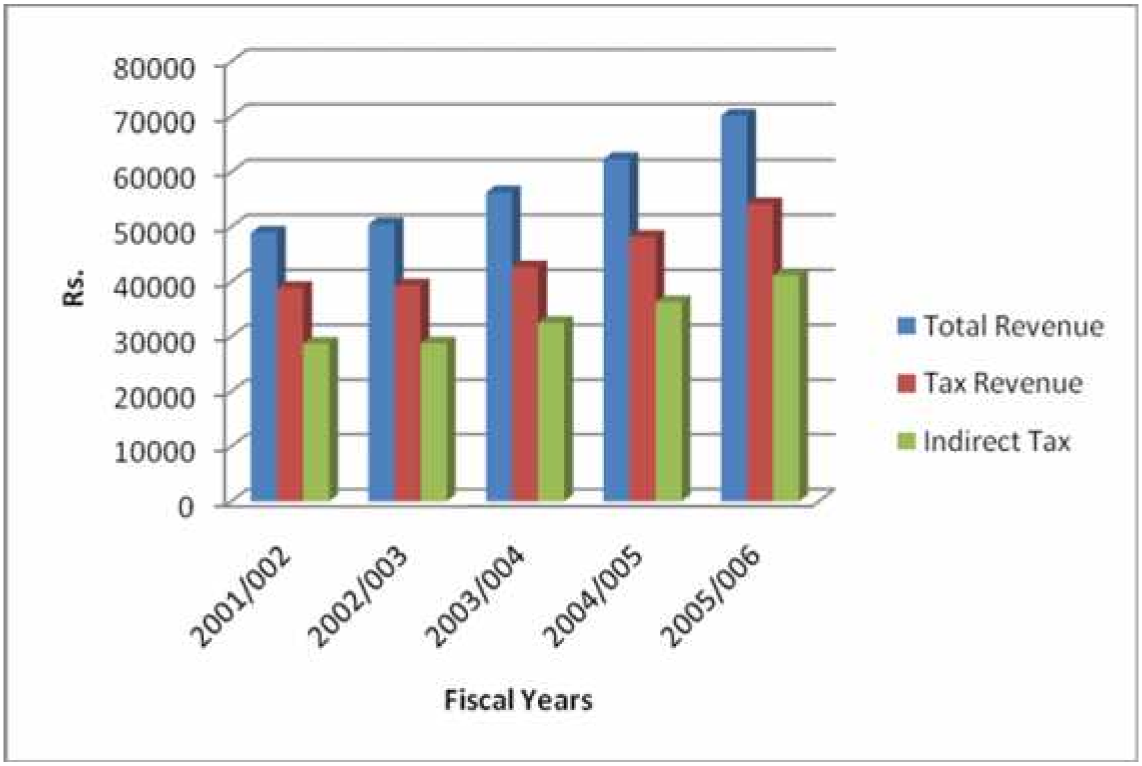
Fiscal year	Total Revenue	Tax Revenue	Indirect Tax	Indirect Tax on total revenue	Indirect Tax on Tax Revenue
2001/002	48894	38865.1	28705.7	58.71	73.85
2002/003	50446	39330.6	28733.1	56.95	73.05
2003/004	56230	42586.9	32481.2	57.75	76.27
2004/005	62331	48173	36260.4	58.17	75.26
2005/006	70122.7	54104.7	41132.9	58.65	76.03

Source:

1. *Quarterly Economic Bulletin, 2002, No 3 NRB.*
2. *Economic Surveys 2004/005 & 2005/006, MOF.*

Figure No: 4.4

Ratio of Indirect Tax in Total Tax Revenue & Total Revenue



4.5 Share of Foreign Partner in Joint Venture Bank

A joint venture is formed by way of two or more enterprises joining together for the purpose of carrying out a specific operation (industrial or commercial investments, production trade). Joint Venture Banks are commercial banks formed by the joining of two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or trades to achieve mutual exchange of goods and services.

Nepal is adopting mixed economic policy with participation from both private and semi government organizations. According to mixed economic strategy and liberal economic policy, several Joint Venture Banks are operating simultaneously. The first joint venture bank of Nepal is Nepal Arab Bank Ltd (NABIL) which was established in 2041 B.S. under Commercial Bank Act 2031. Then, many other Joint Venture Banks were set up under the Commercial Bank Act 2031. Nepalese Joint Venture Banks should take initiation to search new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time the banks and financial institutions are offering very low interest rate on deposit. In this situation, Nepalese Joint Venture Banks are required to explore new opportunities to make investment if they want to survive in the competitive market, since commercial banks can inspire entrepreneurship the banks should also consider nation's interests and government emphasis for the economic growth of the country by the development of industry and business and fulfill the objective of the profit making. Given below is the list of Joint Venture Banks operating in the country.

- Nepal Arab Bank Ltd. (NABIL, 2041)
- Standard Charted Bank Nepal Ltd. (Previously Nepal Grind lays Bank Ltd) (2043)
- Himalayan Bank Ltd (2049)
- Nepal State Bank of India Ltd. (SBI, 2050)
- Nepal Bangladesh Bank Ltd. (2051)
- Everest Bank Ltd. (2051)

Share capital structure of five year of Joint Venture Banks Are presented below:

Himalayan Bank Limited:

Himalayan Bank limited was incorporated in the 1992 A.D (2049 B.S). It was established under the Commercial Bank Act 2031. It is also a foreign joint venture bank and the foreign investment partner is Habib Bank Ltd of Pakistan.

Habib Bank Ltd. Holds 50% of its share. This is first joint venture Bank managed by Nepalese chief executive. It is awarded by the no. 1 bank of Nepal 2003, 2006 and national excellence award 2003. There are 16 branches of Himalayan Bank limited which are in operation. Now it has provided 'Any Branch Banking Facility', Internet Banking and SMS Banking. It's authorized and paid-up capital is Rs.1, 000,000,000 and Rs.81, 08,10,000 respectively, on which national investors have owned 80% of paid up share capital and 20% of paid up share capital is owned by international investors.

Table 4.5

Share of Foreign Investment in Total Share Capita of Himalayan Bank

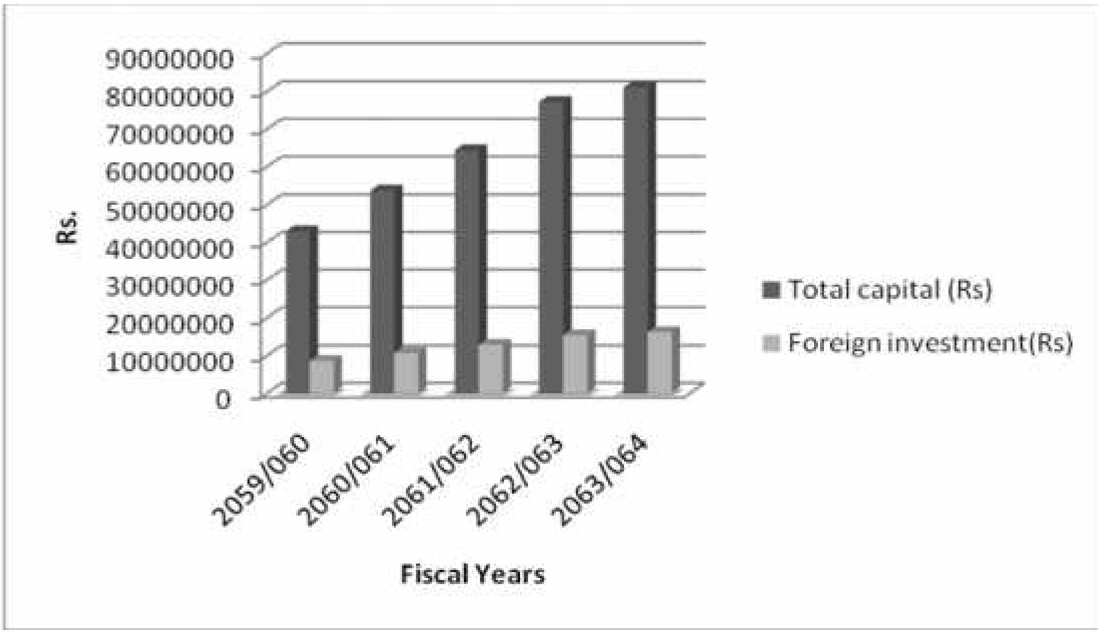
Fiscal Year	**Total Capital(Rs)**	**Foreign Investment (Rs)**	**%**
059/60	42,90,00,000	8,58,00,000	20
060/061	536250000	107250000	20
061/062	643500000	128700000	20
062/063	772200000	154440000	20
063/064	810810000	162162000	20

Source: Annual Report of Himalayan Bank.

In the above table it is seen that Himalayan Bank ltd has constant foreign investment in share capital in percentage. i.e. 20%. When the total capital is increased there is also increment in foreign investment to meet the same percentage i.e.20%. Following is the figure of Share of Foreign investment of Himalayan bank ltd:

Figure: 4.5

Share of Foreign Investment in Total Share Capital of Himalayan Bank



Source: Table 4.5

Nepal Arab Bank Ltd. (NABIL):

NABIL Bank is the first joint venture commercial banks incorporated in 1984 A.D. (2041 B.S) in Nepal. Initially, Dubai Bank Ltd (DBL) invested 50% of share in this bank; the shares owned by DBL were transferred to Emirate Bank international Ltd. (EBIL) Dubai. Later in EBIL sold its entire stock to National Bank Ltd. Bangladesh (NBLB). NBLB is managing the banks which are in operation in the country. Now the share of invested capital by the foreign investor is 50% and national investor is 50%. Total share capital of this bank is Rs 4,916,54,400, of which national investors have invested Rs 24,58,27,200 and foreign investor have invested Rs 24,58,27,200.

NABIL Bank is rated a successful commercial bank, it has been helping business communities and the government in different ways since its establishment. This bank has achieved the bank of the year Nepal 2004 award. Now the bank is well known as NABIL Bank limited and it has 17 branches office in operation. It's authorized and paid-up capitals are Rs.50, 000,000 and Rs.49, 165,400 respectively.

Table 4.6

Share of Foreign Investment in Total Share Capital Of Nepal Arab Bank Ltd. (NABIL)

Fiscal Year	Total Capital (Rs)	**Foreign Investment(Rs)**	**%**
2059/060	491654400	245827200	50
2060/061	491654400	245827200	50
2061/062	491654400	245827200	50
2062/063	491654400	245827200	50
2063/064	491654400	245827200	50

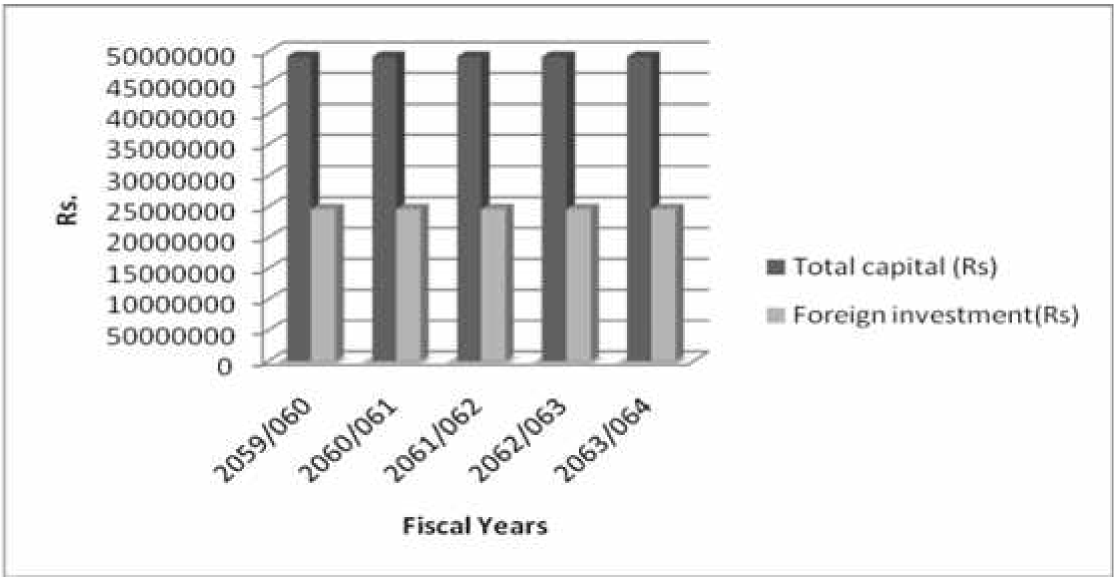
Source: *Annual Report of NABIL Bank.*

In the above table it is seen that NABIL bank has constant capital structure till five year. It has 50% foreign investment in total share capital. Following shows the clear trend of foreign of NABIL Bank Ltd:

Figure: 4.6

Share of Foreign Investment in Total Share Capital

of Nepal Arab Bank Ltd. (NABIL)



Source: Table 4.6

Standard Chartered Bank Nepal Limited:

Standard chartered Bank Nepal Ltd. was incorporated in 1985 as a second foreign joint venture bank under the Commercial Bank Act 2031. The foreign joint venture partner was Grindlays Bank Ltd. That was managing the bank under joint venture and technical services agreement signed between it and Nepalese promoters. The bank has 11 points of representation (7 Branches) and 9 ATMs across the country.

Grindlays Bank merged with Standard Chartered Bank Group. Therefore, its international partner is Standard Chartered Bank Group. Standard Chartered Bank group hold 75% of its shares. Standard Chartered Bank Nepal Ltd is a leading commercial bank. It introduced new banking service to business community and general public. It was awarded Bank of the year 2002, Nepal, national excellence award 2002, “the best company, financial institutions” 2003 etc. Its authorized and paid-up capital is Rs.1, 000,000,000 and Rs.374, 640,400 respectively. 25% of is paid up share capital is owned by national investors which is Rs 9,36,60,100 and 75% share capital is owned by international investors which is Rs 28,09,80,300.

Table 4.7

Share of Foreign Investment in Total Share Capital

Of Standard Chartered Bank Nepal Limited

Fiscal year	Total Capital(Rs)	Foreign Investment(Rs)	%
2059/060	339548800	169774400	50
2060/061	374640400	187320200	50
2061/062	374640400	280980300	75
2062/063	374640400	280980300	75
2063/064	913254800	684941100	75

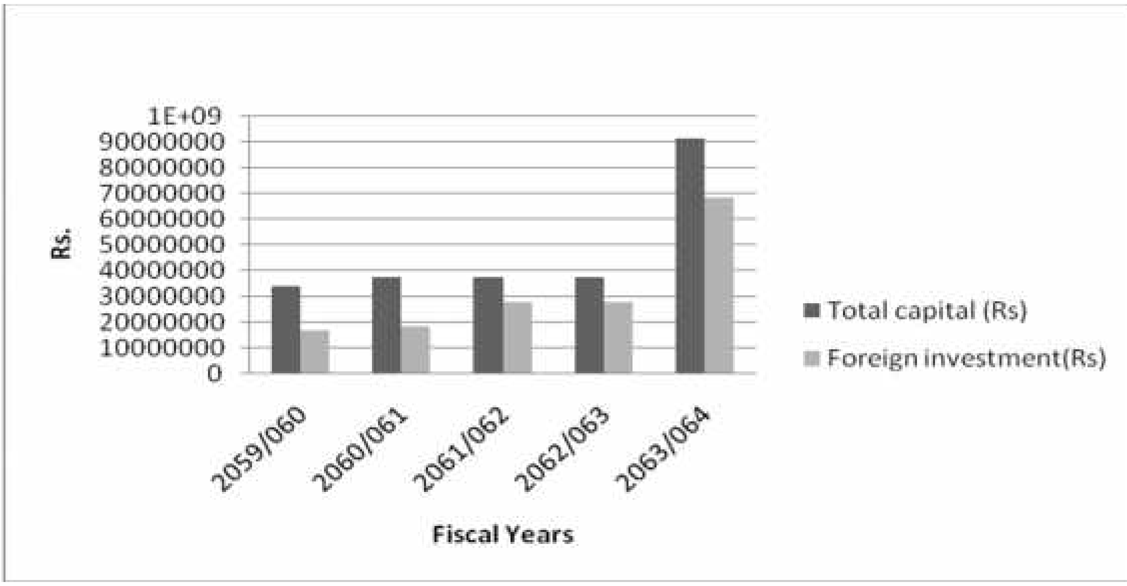
Source: Annual Report of Standard Chartered Bank.

In the above table standard chartered bank had 50% foreign investment in fiscal year 2059/060 and 2060/061 but in fiscal year 2061/062 share of foreign investment raised to 75% till fiscal year 2063/064. Following figure clearly shows the share of foreign investment in standard chartered bank ltd:

Figure: 4.7

Share of Foreign Investment in Total Share Capital

Of Standard Chartered Bank Nepal Limited



Source: Table: 4.7

Nepal SBI Bank Limited:

Nepal SBI Bank limited was incorporated in 1993 A.D. (2050 B.S.). It was established under the commercial Bank Act 2031. It is also a foreign joint venture Bank. Its foreign investment partner is state Bank of India and holding the 50% of equity share. The bank is managing under the joint venture and technical services agreement signed between it and Nepalese promoters. There are 15 branches and one extension counter of Nepal SBI Bank limited in operation. On-line Banking and ATM facilities also has provided from several branches. It's authorized and paid-up capitals are Rs.1, 000,000,000 and Rs.640, 236,100 respectively on which local ownership is 49.39% which is Rs 31,62,36,100 and foreign ownership is 50.61% which is Rs 32,40,00,000.

Table 4.8

Share of Foreign Investment in Total Share Capital of SBI Bank Ltd.

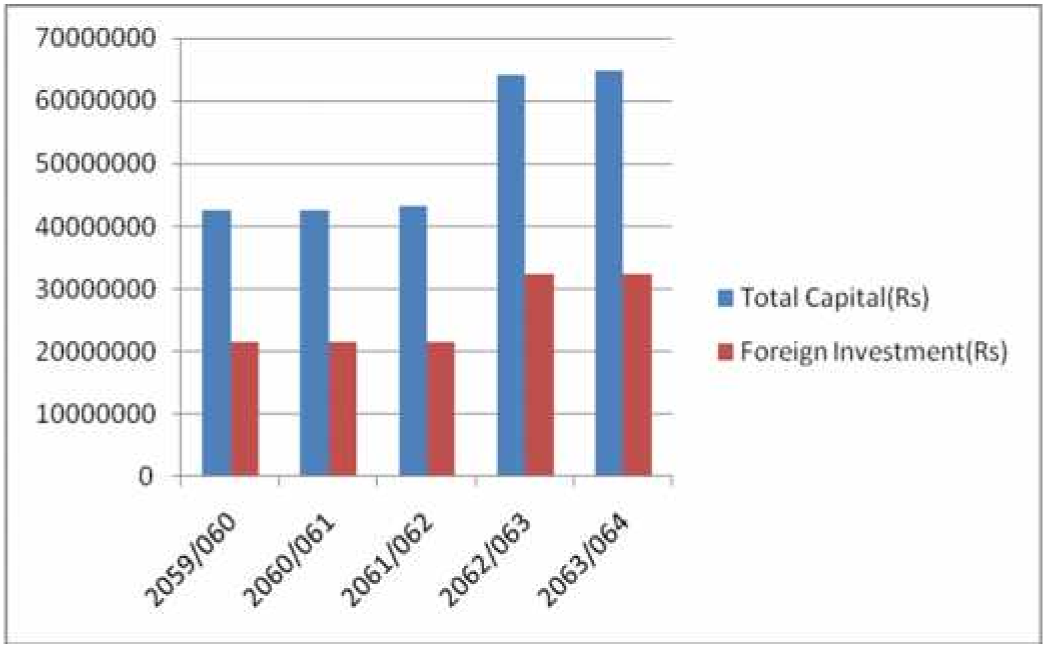
Fiscal Year	**Total Capital(Rs)**	Foreign **Investment(Rs)**	**%**
2059/060	425157300	216000000	50.80
2060/061	426875900	216000000	50.60
2061/062	431865600	216000000	50
2062/063	640236100	324000000	50.61
2063/064	647798400	324000000	50.20

Source: Annual Report of SBI Bank.

In the above table SBI Bank has 50.80% foreign investment in fiscal year 2059/060, 50.60% in fiscal year 2060/061, 50% in 2061/062, 50.61% in 2062/063, 50.20% foreign investment in Fiscal year 2063/064. SBI bank has highest foreign investment in 2059/060 which is 50.80%. Following figure clearly shows the share of foreign investment in SBI bank ltd:

Figure: 4.8

Share of Foreign Investment in Total Share Capital of SBI Bank Ltd



Source: Table 4.8

Nepal Bangladesh Bank Limited:

Nepal Bangladesh Bank limited was incorporated in 1994 A.D. (2051 B.S.). It was established under the company Act 2021 B.S. And commercial bank act 2031. It is also a foreign joint venture bank and the foreign partner IFIC Bank Ltd. of Bangladesh. It is managing under the joint venture and technical services agreement signed between it and NBB till 2006. But now it is managing by the Nepal Rastra Bank. It has 17 branches in operating. The authorized capital and paid-up capital are Rs.1, 5, 00,000,000 and Rs.71, 98,52,000. On which foreign ownership is 25.01% and 74.99% is national ownership.

Table 4.9

Share of Foreign Investment in Total Share Capital Of Nepal Bangladesh Bank Limited

Fiscal Year	Total Capital(Rs)	Foreign Investment(Rs)	%
2059/060	360000000	180000000	50
2060/061	360000000	180000000	50
2061/062	719852000	180000000	25.01
2062/063	719852000	180000000	25.01
2063/064	719852000	180000000	25.01

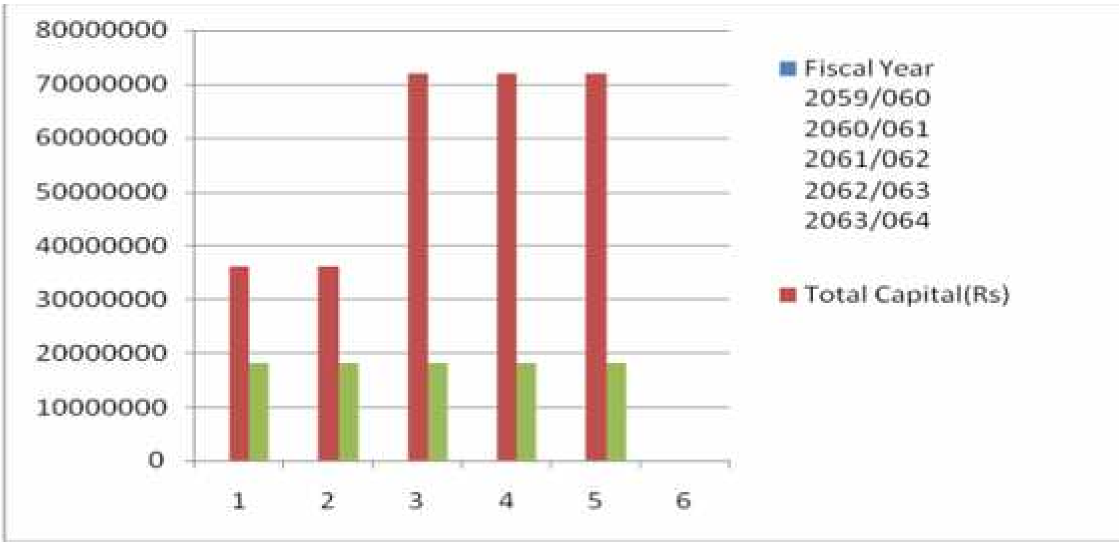
Source: Annual Report of NB Bank.

In the above table it is observed that in the fiscal year 2059/060 and 2060/061 NB Bank has 50% foreign investment in its share capital but from the fiscal year 2061/062 foreign investment in its share capital reduced to 25.01% and remained constant till fiscal year 2063/064. Following figure clearly shows foreign investment in share capital of NB Bank:

Figure 4.9

Share of Foreign Investment in Total Share Capital

of Nepal Bangladesh Bank Limited



Source: Table 4.9

Everest Bank Limited:

Everest Bank limited was incorporated in 1992 A.D. (2051). It was established under the commercial Bank Act 2031. It is also a foreign joint venture Bank and the foreign partner was united Bank of India Ltd. and was managed from the beginning till now. Later on, it handed over the management to the Punjab National Bank Limited of India that hold 20% equity on the Banks shares capital is operation. The bank is awarded by the Bank of the year 2006 Nepal. It has the largest network among the private sectors Bank in Nepal which has 20 branches in operations. Its authorized capital and paid-up capital are Rs.1, 00, 00, 00,000 and Rs.51, 80, 00,000 respectively. On which 20% of share capital is owned by foreign investor and 80% is owned by national investor.

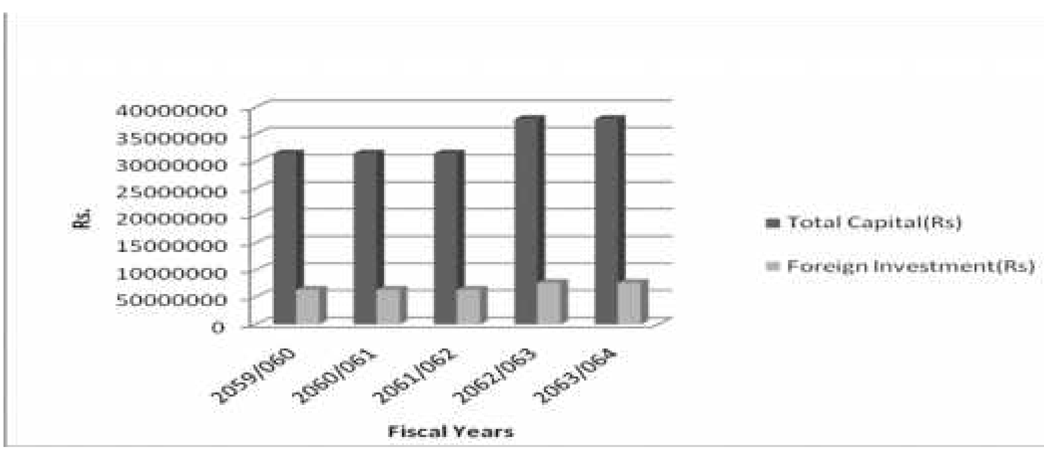
Table 4.10
Share of Foreign Investment in Total Share Capital of Everest Bank Limited

Fiscal Year	Total Capital(Rs)	Foreign Investment(Rs)	%
2059/060	315000000	63360000	20
2060/061	315000000	63360000	20
2061/062	315000000	63360000	20
2062/063	378000000	76032000	20
2063/064	378000000	76032000	20

Source: Annual Report of Everest Bank.

In the above table share of foreign investment in share capital of Everest bank is constant in percentage but the amount of total capital and foreign investment is changing. It was constant till fiscal year 2061/062. And it changed in fiscal year 2062/063 in amount but the foreign investment percentage is same. Following figure clearly shows the foreign investment in Everest bank ltd:

Figure 4.10
Share of Foreign Investment in Total Share Capital of Everest Bank Limited



Source: Table 4.10

From the Above analysis the reasult is drawn that the Standard Chartered Bank has the heighest Share of foreign investment in its Share Capital which is 75% in fiscal year 061/062, 062/063, 063/064, and lowest share of foreign investment in share capital is of Himalayan Bank limited and Everest Bank limited which has 20% share of foreign investment in share capital.

4.6 Contribution of Joint Venture Bank in Total Tax Revenue of Nepal

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect is the composition of customs, excise, sales tax/VAT and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities in the form of fees, fines and penalties etc. The government revenue is therefore, the combination of tax revenue and non-tax revenue consisting various sources. In the composition of Total tax revenue of Nepal, various sectors involve in it, among them joint Venture Banks are one element, which are contributing according to their profit in income tax revenue. Their contribution is tabulated below:

Table 4.11

Income Tax of Joint Venture Banks of Nepal

From Fiscal year 059/060 to 063/064

Amount in 'Million'

Joint Venture Bank	**2059/060**	**2060/061**	**2061/062**	**2062/063**	**2063/064**
NB Bank	120	97	89.5	80.34	184.19
Everest Bank	41.71	67.55	81.91	106.75	144.36
SBI Bank	20.30	48.68	67.81	66.12	86.70
Himalayan	147.90	157.52	214.27	214.94	225.58
Standard Chartered Bank	208.22	235.79	261.90	280.62	324.43
NABIL	199.15	223.48	237.67	262.74	302.09
Total	**737.28**	**830.02**	**953.06**	**1011.51**	**1267.35**

Source: Annual Report

In the above table it is seen that standard bank had paid highest income tax to the government in every year included in analyses. NABIL bank is in second position in income tax Payment among six joint venture banks. Himalayan bank is in third position, Everest bank, NB bank and SBI bank has fluctuation in income tax payment.

Table 4.12

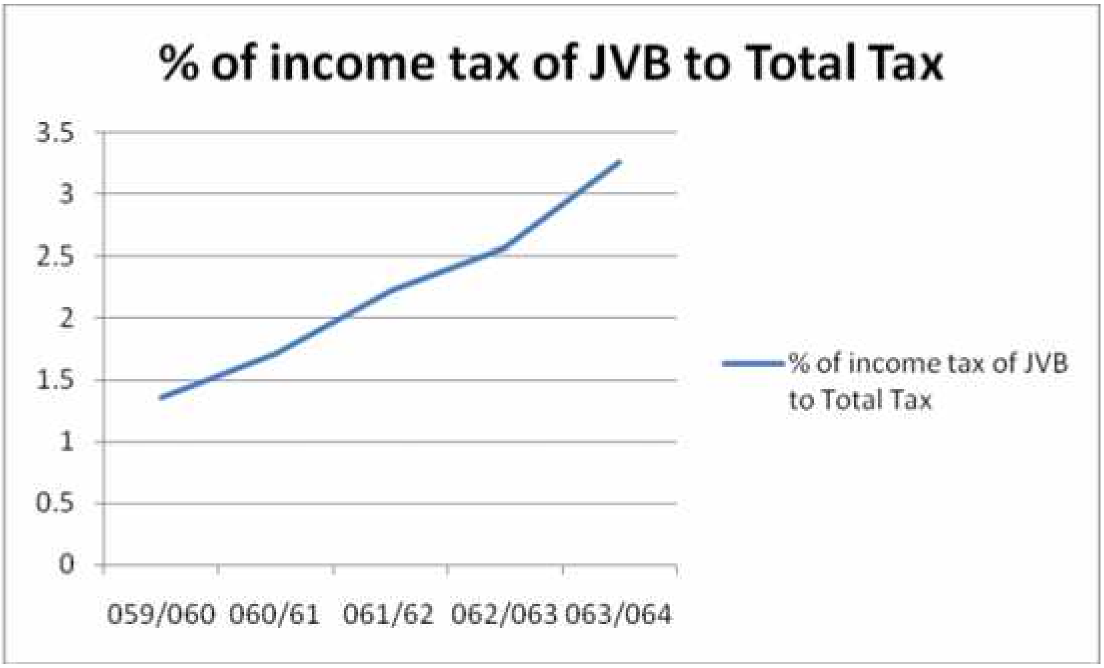
Contribution in Total Tax Revenue by Joint Venture Banks of Nepal

Amount in 'Million'

Fiscal Year	Total Tax Revenue	Income Tax By Joint Venture Bank(JVB)	% of income tax of JVB to Total Tax
059/060	54104.7	737.28	1.36
060/61	48173.0	830.02	1.722
061/62	42587	953.06	2.23
062/063	39331	1011.51	2.57
063/064	38865	1267.35	3.26

Source: Economic Survey & Annual Report.

Contribution of joint venture banks in total tax revenue is highest in fiscal year 063/064 which is 3.26%. it was 2.57% in 062/063, 2.23% in 061/062, 1.722% in 060/061 and 1.36% in 059/060. The conclusion can be drawn that the contribution of joint venture banks in total tax revenue is in increasing trend. Following figure clarify the trend:



Source: Table 4.11

4.7 Contribution of Joint Venture Banks in Income Tax Revenue of Nepal

In the composition of Income Tax revenue of Nepal, various sectors involve in it, among them joint Venture Banks are one element, which are contributing according to their profit in income tax revenue. Their contribution is tabulated below:

Table 4.13

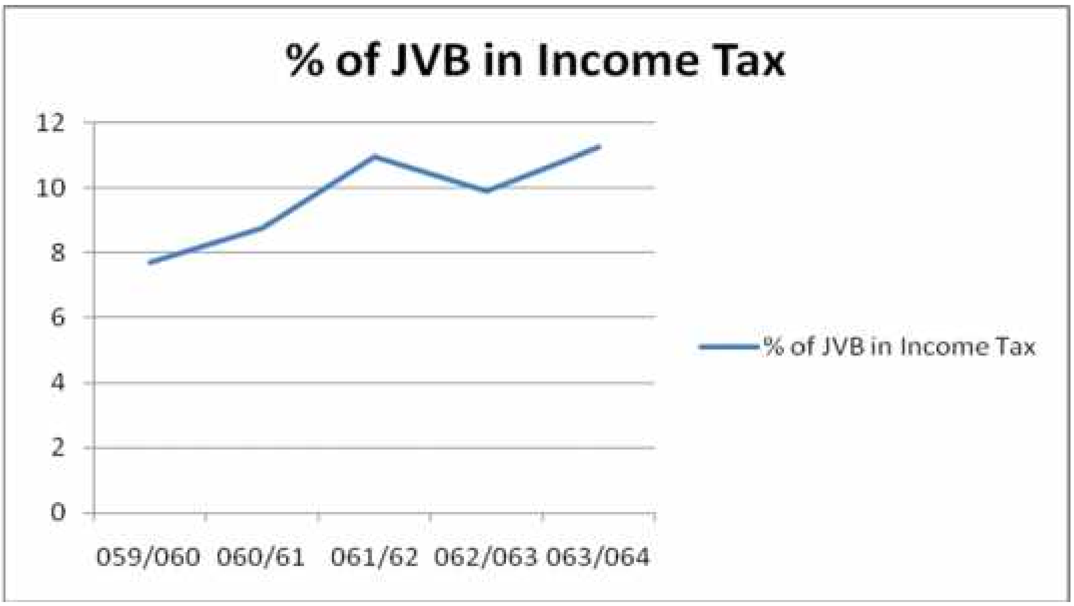
Contribution of Joint Venture Banks in Income Tax Revenue of Nepal

Amount in 'Million'

Fiscal year	Total Income Tax	Income Tax by JVB	% of JVB in Income Tax
059/060	9547	737.28	7.72
060/061	9465.7	830.02	8.76
061/062	8691.4	953.06	10.96
062/063	10215.1	1011.51	9.90
063/064	11272.6	1267.35	11.24

Source: Economic survey & Annual Report of JVBs.

In the above table contribution of JVBs in income tax is highest in fiscal year 063/64 which is 11.24% and lowest in fiscal year 059/60 which is 7.72%, and 8.76% & 10.96% in fiscal year 060/61 and 061/062 respectively. Contribution of Joint venture banks in income tax is in increasing trend. Following figure clearly shows the trend:



4.8 Special facilities and benefits provided to banks by Income Tax ACT 2058.

Sec- 59 of the Income Tax Act,2058 has made the provision related to banking and insurance business. According to sec. 59, a banking or general insurance of investment insurance business of a person should be treated as a separate business. It means, such business should not be mixed with other business and the income or loss of banking, general insurance and investment insurance should be separate from other business.

The other provisions in this regard are as follows:

1. As stated in sec. 59, the person running the banking business would be provided to deduct at the most 5 percent of the contingency amount as expenditure. If such expenditure is shown, bad debts can not be shown in profit and loss account as expenditure. If the amount in contengency fund is capitalised of dividend is distributed, it should be shown as income in the year of the capitalisation.

2. The loss from banking business can be carried backward for 5 years. However, if contingency fund is utilised to show as expenditure, the carry backward facility is not allowed.
3. The condition to be fulfilled while carrying backward the loss is that the loss will not exceed any income derived from the business for the particular preceding income year and it will not in total exceed the amount of the loss.

4. Another condition is that the carry backward can be only to reduce the amount of the losses that is considered an un relieved loss. In this respect, banking business means a bank which is authorised to carry banking transactions.

4.9 Empirical Analysis:

To find out various aspects of income tax from the experience of the real world, an empirical investigation has been conducted. The major tools used for this purpose is an opinion questionnaire, which was dispatched to 18 persons representing Different Joint Venture Banks of Nepal. The questionnaire included the various aspects of income tax. The questionnaire either asked for a Yes/No response or asked for ranking of choice according to number of alternatives where a first choice is the most important and last choice is the least important. Out of dispatched questionnaire only 15 were collected.

Information received from respondents is tabulated into the separate format and they are expressed in percentage of total points or number then analyzed into descriptive way.

1. Awareness about income Tax System of Nepal

To know about the awareness about the income tax system of Nepal of respondent a question was asked “Do you know the “income tax system of Nepal”? The answers provided by respondents are presented below:

Awareness about income Tax System of Nepal

Option	No of Respondents	%
Yes	15	100
No	0	0
Total	15	100

Source: opinion survey.

In the above table out of 15 respondents almost all replied that they are aware of income tax system of Nepal. So we can conclude that almost all respondents are aware of Income Tax system of Nepal.

2. Suitable Means of Raising Domestic Resources

To know whether the income tax is suitable means of raising domestic resources in Nepal, a question was asked “in your opinion, is the income tax suitable means of raising domestic resource in Nepal?” the response provided by respondents are presented below:

Suitable Means of Raising Domestic Resources

Option	No of Respondent	%
Yes	12	80
No	3	20
Total	15	100

***Source: Opinion Survey*.**

In the above table 80% of respondents respond that the income tax is suitable means of raising domestic resources by saying "Yes" and 20% respond "No" thus we can conclude that income tax is suitable means of raising domestic in Nepal.

3. Contribution on income tax by Joint Venture Bank

To know whether the contribution on income tax by joint venture bank is satisfactory or not a question was asked "Do you think that the contribution of income tax by joint venture bank is satisfactory? The response provided by respondent are presented below:

Contribution on income tax by Joint Venture Bank

Option	No of Respondent	%
Yes	4	26.66
No	11	73.34
Total	15	100

***Source: Opinion Survey*.**

In the above table 11 respondents replied "No" and 4 responds replied "Yes" so the conclusion can be drawn that the contribution on income tax by joint venture bank is not satisfactory.

4. Causes of unsatisfactory income tax contribution from joint venture bank

To know the causes of unsatisfactory income tax contribution from joint venture bank respondents are asked to rank the causes their response is presented below:

Causes of unsatisfactory income tax contribution

Causes	**Points**	**%**	**Rank**
Defective income tax policy, rules regulation	129	26.21	1st
Inadequate government economic policy	122	24.79	3rd
Poor performance of joint venture banks	117	23.78	4th
Lack of stable political condition	124	25.22	2nd
Total	492	100	

***Source: Opinion Survey*.**

In the above table "Defective income tax policy, rules, regulation" got highest points and became in 1st position and " lack of stable political condition" is in 2nd position so these are the main reason or causes of un satisfactory income tax contribution by joint venture banks.

5. Specific objective of income tax policy of Joint Venture Bank

To know the specific objective of income tax policy of joint venture bank a question was asked "What should be specific objective of income tax policy of Joint Venture Bank?" answers provided by respondents are presented below:

Specific objective of income tax policy of Joint Venture Bank

Causes	**Points**	**%**	**Rank**
To enhance government Revenue	135	26.39	1st
To promote regional economic development	128	25	2nd
To narrow the income gap between reach and Poor	125	24.43	3rd
To check inflation.	124	24.18	4th
Total	512	100	

In the above table the option "To enhance government Revenue" got highest points with 26.39% so we can conclude that the Specific objective of income tax policy of Joint Venture Bank is to enhance government revenue.

6. Factor that should be initiated to increase the contribution of income tax from Joint Venture Bank

To know the factor that should be initiated to increase the contribution of income tax from joint venture bank a question is asked ". What Factor should be initiated to increase the contribution of income tax from Joint Venture Bank?" and respondent are asked to rank the option, their response is presented below:

What Factor should be initiated to increase the contribution of income tax from Joint Venture Bank

Causes	**Points**	**%**	**Rank**
Increase of managerial efficiency of Joint Venture Bank	135	24.88	1st
Reform the income tax policy, rules and regulations	142	25.58	1st
Effective imposition of fine and penalty system	138	24.32	3rd
Effective tax administration system	140	25.22	2nd
Total	555	100	

Source: Opinion Survey

In the above table, the option "Reform the income tax policy, rules and regulations" got highest point and became 1st in ranking with 25.58% and the option "Effective tax administration system" got second position thus we can conclude that reform the income tax policy, rules and regulations, should be initiated to increase the contribution of income tax from joint venture Banks.

7. Sufficiency of special facilities and benefits provided to banks by Income Tax Act 2058

To know the sufficiency of special facilities and benefits provided to banks by income tax Act 2058 a question is asked "Do you think that the special facilities and benefits provided to banks by Income Tax Act 2058 are sufficient?" the answer provided by respondent is presented below:

Sufficiency of special facilities and benefits provided to banks by Income Tax Act 2058

Response	No of Respondents	%
Yes	6	40
No	9	60
Total	**15**	**100**

Source: Opinion Survey

In the above table only 40% of respondents replied Yes and 60% said No so, we can conclude that the special facilities and benefits provided to banks by income tax Act 2058 is not sufficient.

8. Problem related to income tax of Joint Venture Bank

To know the problems related to income tax of joint venture bank respondents are requested to rank the option and their response is presented below:

Problem related to income tax of Joint Venture Bank

Causes	Points	%	Rank
Complicated legal provision	145	25.66	1^{st}
Less tax consciousness of Joint Venture Bank	138	24.44	4^{th}
Lengthy process of tax assessment	142	25.13	2^{nd}
Lack of identical accounting system	140	24.77	3^{rd}
Total	565	100	

Source: opinion survey.

In the above table the option “Complicated legal provision” got highest points with 25.66% and became 1st in position and “Lengthy process of tax assessment” got second position. Thus we can conclude that these are the main problems of joint venture banks related to income tax.

9. Foreign investment in share capital of Joint Venture Bank

To know whether it is good to increase the share of foreign capital in joint venture bank a question is asked “In your opinion, is it good to increase the foreign investment in share capital of Joint Venture Bank? Response provided by respondent is presented below:

Foreign investment in share capital of Joint Venture Bank

Option	No of Respondents	%
Yes	12	80%
No	3	20%
Total	15	100

Source: Opinion Survey.

In the above table 80% of the respondents replied Yes and 20% replied No so we can conclude that it is goo to increase foreign capital in Joint venture banks.

Major Findings of the Study:

On the basis of preceding chapters, data presentation and analysis some important findings can be drawn. The major findings of this research study are summarized as below:

1. Income tax has been considered as a suitable source for the collection of government revenue and mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop

the economic conditions of Nepalese people and promote distributive justice and to cure resource gap problem.

2. Government revenue is the composition of external revenue and internal revenue. Internal revenue includes both tax and non tax revenue. Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. Direct tax revenue is the composition of income tax, land tax, house and land registration tax and other tax. There is dominant share of income tax revenue in direct tax revenue.

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In the structure of the direct tax revenue income tax has occupied the supreme position.

3. Himalayan Bank ltd has constant foreign investment in its share capital in percentage. i.e. 20%. When the total capital is increased there is also increment in foreign investment in amount to meet the same percentage i.e.20%.
4. NABIL bank has constant capital structure till five year. It has 50% foreign investment in total share capital.
5. Standard chartered bank had 50% foreign investment in fiscal year 2059/060 and 2060/061 but in fiscal year 2061/062 share of foreign investment raised to 75% till fiscal year 2063/064.
6. SBI Bank has 50.80% foreign investment in fiscal year 2059/060, 50.60% in fiscal year 2060/061, 50% in 2061/062, 50.61% in 2062/063, 50.20% foreign investment in Fiscal year 2063/064. SBI bank has highest foreign investment in 2059/060 which is 50.80%
7. In the fiscal year 2059/060 and 2060/061 NB Bank has 50% foreign investment in its share capital but from the fiscal year 2061/062 foreign investment in its share capital reduced to 25.01% and remained constant till fiscal year 2063/064.

8. Foreign investment in share capital of Everest bank is constant in percentage but the amount of total capital and foreign investment is changing. It was constant till fiscal year 2061/062. And it changed in fiscal year 2062/063 in amount but the foreign investment percentage is same.

9. Standard Chartered Bank Limited had paid highest income tax to the government in every year included in analyses. NABIL bank is in second position in income tax Payment among six joint venture banks. Himalayan bank is in third position, Everest bank, NB bank and SBI bank has fluctuation in income tax payment.

10. Contribution of joint venture banks in total tax revenue is highest in fiscal year 063/064 which is 3.26%. it was 2.57% in 062/063, 2.23% in 061/062, 1.722% in 060/061 and 1.36% in 059/060.

11. Contribution of JVBs in income tax is highest in fiscal year 063/64 which is 11.24% and lowest in fiscal year 059/60 which is 7.72%, and 8.76% & 10.96% in fiscal year 060/61 and 061/062 respectively.

12. Income Tax Act,2058 has mension that a banking business of a person should be treated as a separate business. It means, such business should not be mixed with other business and the income or loss of banking should be separate from other business.

Findings from Empirical Analysis

- Almost all respondent are aware of income Tax System of Nepal.
- Income tax is suitable means of raising domestic resource in Nepal.
- Contribution of income tax from Joint venture bank is not satisfactory.
- Defective income tax policy, rules, regulation, inadequate government economic policy and Lack of stable political condition are the reason for insufficient contribution of joint venture bank in income tax of Nepal.

- To enhance government Revenue should be the specific objective of income tax policy of Joint Venture Bank.
- To increase the contribution of income tax from Joint Venture Banks, income tax policy, rules and regulations should be reformed; tax administration system should be effective etc.
- Special facilities and benefits provided to banks by Income Tax Act 2058 are not sufficient.
- Complicated legal provision and Lengthy process of tax assessment are the main problem related to income tax faced by Joint Venture Bank.
- It is good to increase the foreign investment in share capital of Joint Venture Bank

CHAPTER - V

SUMMERY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In developing countries like Nepal, lack of sufficient financial resources is the main constraint in the economic development. Total expenditure of Nepal government has been increasing every year due to the expansion of government activities. Nepal is always facing financial problems every year. There is serious problem of resource gap which is in increasing trend in Nepal, government accumulation required fund mainly from internal and external sources to finance regular and development expenditure. Because of the inadequacy of the internal sources for the development of the Nation, Nepal comes under compression to rely on foreign loan and grants.

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objectives of taxation have been different epochs. In ancient times, the major objectives of taxation were strengthening the muscle of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resource to the government for providing security to an individual and society against violence, invasion, and injustice and maintaining public institutions.

The government of every country collects its revenues through different sources. In modern days the main objectives of taxation has been shifted from security perceptions to the economic development. The modern objectives of taxation are not only to maintain peace and security.

Income tax plays very important role in the Nepalese economy. Income tax is one of the better sources of public revenue. It is one of the tools of achieving maximum social and economical objectives as laid down by the constitution of Nepal. Income tax also helps to increase the awareness and make the people realize the social responsibility because the people who have paid the income tax are interested in public expenditures.

In the year revenue structure of Nepal, share of tax revenue and non-tax revenue were Rs.57427.0 million and 14855.1 million respectively, in fiscal year 2005/2006 where as income tax contribution 10933.5 million only. Income tax contribution on total tax revenue is 15.12 percentages.

Generally bank is an institution that deals with money. A bank performs several financial, monetary and economic activities, which are vital for economic development of country. It is a monetary institutional vehicle for domestic resources in the fields of agriculture, trade, commerce etc. Banks are financial institution. They are providing loan and other banking services. They support the national economy. Most of the loan provided by banks is used for generating income. If income increases income tax and revenue of government also increases. In one way there is a direct relationship between the government revenue and the income earned by the people. If loan amount are used in consumption, it also support in increasing the income. Banks are significant tax payer institutions. Tax payment by banks makes significant impact in total revenue of government and total income tax.

A joint venture is formed by way of two or more enterprises joining together for the purpose of carrying out a specific operation (industrial or commercial investments, production trade). Joint Venture Banks are commercial banks formed by the joining of two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or trades to achieve mutual exchange of goods and services.

Nepal is adopting mixed economic policy with participation from both private and semi government organizations. According to mixed economic strategy and liberal economic policy, several Joint Venture Banks are operating simultaneously. The first joint venture bank of Nepal is Nepal Arab Bank Ltd (NABIL) which was established in 2041 B.S. under Commercial Bank Act 2031. Then, many other Joint Venture Banks were set up under the Commercial Bank Act 2031. Nepalese Joint Venture Banks should take initiation to search new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time the banks and financial institutions are offering very low interest rate on deposit. In this situation, Nepalese Joint Venture Banks are required to explore new opportunities to make investment if they want to survive in the competitive market, since commercial banks can inspire entrepreneurship the banks should also consider nation's interests and government emphasis for the economic growth of the country by the development of industry and business and fulfill the objective of the profit making. Given below is the list of Joint Venture Banks operating in the country.

- -Nepal Arab Bank Ltd. (NABIL, 2041)
- -Standard Charted Bank Nepal Ltd. (Previously Nepal Grind lays Bank Ltd) (2043)
- -Himalayan Bank Ltd (2049)
- -Nepal State Bank of India Ltd. (SBI, 2050)
- -Nepal Bangladesh Bank Ltd. (2051)
- -Everest Bank Ltd. (2051)

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as the main source of finance. Without the development of sound commercial banking, under-developed countries cannot hope to join the ranks of advanced countries. The term commercial bank comes from commerce. Commerce is the financial transaction related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial view point. They perform all kinds of banking functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

In the Nepalese economy some Joint Venture Banks are being operated successfully but few are in financial crisis. What is the problem with these Joint Venture Banks? The main concentration must be given to understand the tax paying behavior of the Joint Venture Banks (JVBs) in context to prevailing laws relating to Income Taxes and also laws under which these banks are being operated.

5.2 Conclusion

Developing countries like Nepal are facing serious problems in the process of economic development. Lack of sufficient financial resources is the main constraint for the national economic development. A lot of funds are needed to meet the additional financial requirements for their growing development activities. Nepal has been suffering from capital shortage to accelerate the economic growth. Nepal has been heavily relying on foreign loans and grants. Internal resources are preferable for sustainable economic development. But Nepal has been unable for proper mobilization of internal resources.

Income tax has been considered as a suitable source for the collection of government revenue and mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distributive justice and to cure resource gap problem. Government revenue is the composition of external revenue and internal revenue. Internal revenue includes both tax and non tax revenue. Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. Direct tax revenue is the composition of income tax, land tax, house and land registration tax and other tax. There is dominant share of income tax revenue in direct tax revenue.

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In the structure of the direct tax revenue income tax has occupied the supreme position.

Himalayan Bank ltd has constant foreign investment in its share capital in percentage. i.e. 20%. When the total capital is increased there is also increment in foreign investment in amount to meet the same percentage i.e.20%.NABIL bank has constant capital structure till five year. It has 50% foreign investment in total share capital. Standard chartered bank had 50% foreign investment in fiscal year 2059/060 and 2060/061 but in fiscal year 2061/062 share of foreign investment raised to 75% till fiscal year 2063/064. SBI Bank has 50.80% foreign investment in fiscal year 2059/060, 50.60% in fiscal year 2060/061, 50% in 2061/062, 50.61% in 2062/063, 50.20% foreign investment in Fiscal year 2063/064. SBI bank has highest foreign investment in 2059/060 which is 50.80% In the fiscal year 2059/060 and 2060/061 NB Bank has 50% foreign investment in its share capital but from the fiscal year 2061/062 foreign investment in its share capital reduced to 25.01% and remained constant till fiscal year 2063/064. Foreign investment in share capital of Everest bank is constant in percentage but the amount of total capital and foreign investment is changing. It was constant till fiscal year 2061/062. And it changed in fiscal year 2062/063 in amount but the foreign investment percentage is same. Standard Chartered Bank Limited had paid highest income tax to the government in every year included in analyses. NABIL bank is in second position in income tax Payment among six joint venture banks. Himalayan bank is in third position, Everest bank, NB bank and SBI bank has fluctuation in income tax payment.

Contribution of joint venture banks in total tax revenue is highest in fiscal year 063/064 which is 3.26%. it was 2.57% in 062/063, 2.23% in 061/062, 1.722% in 060/061 and 1.36% in 059/060. Contribution of JVBs in income tax is highest in fiscal year 063/64 which is 11.24% and lowest in fiscal year 059/60 which is 7.72%, and 8.76% & 10.96% in fiscal year 060/61 and 061/062 respectively.

Income Tax Act,2058 has mension that a banking business of a person should be treated as a separate business. It means, such business should not be mixed with other business and the income or loss of banking should be separate from other business.

5.3 Recommendation:

On the basis of findings of the study mentioned above, the major areas of recommendations are as follows:

- Success of income tax system is highly depended upon the quality of income tax law. Tax law should be clear, comprehensive and simple. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed. The following suggestion are made for the information of existing tax law:

- The related provision should be aggregated in one head or section, the language used should simplified and vague meaningful words should be well defined.
- The power granted to the tax officers should be reduced as much as possible.
- The provision of punishment to tax officers should be widened. The tax officers who do not perform within due time, harass the tax payers etc. should be punished.
- Time limit for assessment after the filling of return of income should be reduced to three months.
- The time of re-assessment should be reduced from 4 years to 1 years.
- The provision of fines, penalties and punishments should be made at higher rate for income tax evaders.

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

➢ To enter the high volume of foreign investment in Joint venture banks, government should make the special foreign investment policy by providing special facilities to foreign investor and attractive scheme should be provided to them.

➢ The long term objectives of income taxation should be growth, redistribution and stabilization. The income tax policies should be properly formulated so as to match with the economic policy of the country. The following recommendation is made for improvements as regard to long term policy in income tax Collection.

- The income tax policy should be formulated so as to match with the economic policy of the country.
- The members involved in formulating income tax policies must have deep knowledge about income tax.

- Timely revision and adjustment should be made in the matter of income tax policy.
- Income tax policy should be formulated so as to satisfy the following criteria:
  - It should be progressive to insure social justice.
  - It must be consistent with tax administration capacity.
  - It should not mitigate against national priorities and efficient resource use.
  - The system of changing income tax policy with the change of government should better be avoided and the income tax management should be kept away from politics.
- Following recommendations are made to make satisfactory contribution of income tax from Joint Venture Banks:
  - There should be better performance of Joint Venture Banks.
  - Weakness in government economic policy should be avoided. The system of changing economic policy with the change of government should better be avoided.
  - Cash flow position of Joint Venture Banks should be made favorable.
- Following recommendations are made to solve the problems faced by Joint Venture Banks regarding to income Tax System:
  - Income tax Act, rules and regulations should be clear and simple.
  - Income tax administration should be efficient.
  - Joint Venture Banks should be charged minimum penalty.
  - High discretionary power of income tax officer should be reduced.
  - Income tax assessment process should be made fast.
  - Income tax imposition on JVBs should be reduced.
  - Corrupted tax officers should be punished.
- Following suggestion are made to solve the problems and difficulties faced by tax administration in collection of income tax from JVBs:

- JVBs should audit their financial statements regularly.
- JVBs should always be aware in timely submission of the Financial statements.
- JVBs should pay tax dues regularly.
- JVBs should try to make their cash flow position favorable.
- JVBs should be fully cooperative with tax administration.
- The income of JVBs should be transparent.
- JVBs should declare clear figure of transaction.

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