CHAPTER -1
INTRODUCTION

1.1 Background:

The prime concern of every nation of the world is rapid economic development and Nepal is no exception to this. Government expenditure is the major source of the economic development of the country. Government generates its resource for its expenditure from different sources. Among these different sources income tax collected from different sector have important share.

There are various factors involved for an economy of any country to develop namely, land, labor and capital.

Government uses various means in collection of capital. It collects capital from various sectors and Income tax collected from these various sectors is the most important source of Government revenue.

Banks are important pillars of economy of a country. Commercial banks have important role in free market economic system. Further, they pay significant amount of income tax to government-an important source of government income.

They accept public saving as deposit and advance them as loans to the person, parties or business organizations that required capital. The saver is rewarded by the payment of interest on their saving. their pooled funds are made available to business person who may use them for the expansion of their productive capacity. Therefore, their

Primary functions are accepting deposit from public and firms and to extend them to worthy borrowers.

According to Kent" Commercial bank is an organization whose principle operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."

Capital plays a vital role in the economic development program to solve the various socio-economic problems Commercial bank also plays a vital role for the development of nation's economy.

Thus a bank is an institution which accepts deposit from the public and in turn advances loans by creating credit. It deals with accept deposit and make loan to manufacturer company, business houses, housing company, educational institutions .It is established to fulfill certain objective such as to facilitate public economic interest to advance loans for the development of agriculture industries and trade and to provide banking services to the public. Bank lending is very important to the economy for it makes possible the financing of agriculture, commercial and industrial activity of the nation. Bank loan to manufacturers make possible the purchase of raw material and machinery and the employment of labour, which can be produced goods demanded by industry government and the consumer in time. Comparative cost and national endowments have made trade imperative within the country and around the globe. Since buyer and seller alive apart, neither the seller can dispatch the goods without obtaining money nor buyer can remit money without receipt of goods. Similarly many big concerns have many branches in many countries and the world. That means the world is going to multinational trade. This is possible due to commercial bank's services of letter of credit, exchanging foreign currency.

The first formal commercial bank of Nepal is Nepal Bank Ltd, which was established on 30th kartic 1994 B.S.Second the government of Nepal set up Rastriya Banijya Bank, which came into operation in 2022 B.S. After a long term gap the first joint venture bank named Nepal Arab Bank Ltd (NABIL) was established in 2021 and commercial bank act 2031.Then after many other joint venture banks were set up under the company act 2021 and 2053 and commercial bank act 2031.Now 26 commercial bank s are operating in the country.

Function of Commercial Bank

1) Accept deposit

2) To provide loans and advances

3) To perform agency function

4) To carry out utility function

Thus commercial banks perform above function they are profit oriented entity. They provide various services to public, business organizations and government. They must pay income tax out of their net profits. Therefore any bank, which is established under the Commercial bank Act 2031 and company act 2053 is the corporate tax payer to the government. Government revenue is the most important source of financing government expenditure. To achieve the national objectives the government is required to make and implement various policies and planning, acts and procedures. Besides these functions revenue mobilization is one of the most important functions of the government.

1.2 Significance of the Study

Income tax plays significant role in the overall economic development in developed and developing countries, income tax occupies a very important role in overall tax economy. So contribution of income tax from commercial banks to the government revenue of Nepal has been chosen as a relevant topic for the present study.

The income tax (part of internal resources) is one of the major sources to analyze that can be increased through proper correction in collection procedures and identification of potential tax payers. So it becomes necessary to analyze the different income tax payers under each head and income tax collected from each group of tax payers. The problems they are facing in tax paying should be corrected so that they may contribute more income tax to the national receipt. Commercial banks are such institutions which are directly linked with most other business activities. The condition of business, trade and industries can be visualized through the analysis of activities of commercial banks. A tax collection analysis from commercial banks may help to locate potential new and hidden tax payers. 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, vague section of income tax can also be rectified from such analytical study. This study is concerned with this aspect and it tries to make appropriate recommendations for the correction of problems in paying income tax by commercial banks and collecting income tax from commercial banks.

Every year there is a need of mobilization adequate resources for meeting the increasing financial requirement for Nepal Government's development purposes. Thus, income tax seems to be one of the major potential sources for mobilizing a larger amount of financial resources in Nepal. In developing country like Nepal, the importance of income tax can not be minimize for reducing economic inequality in the society and in instrument to measure the economic standard of people. But income tax of Nepal is suffering from Varies problems. The major problems are: inappropriate tax policies, administrative bottlenecks of direct tax structure and existence of main poverty. So to identify the problems and to overcome them to improve existing level of income taxation, the field of income tax is essential.

This study is helpful to the economist planner, tax officers and tax administrators of government, similarly, this study can also be helpful to the students, teachers, researchers, and other individuals who are interested towards the income tax system of Nepal.

1.3 Statement of the problem

Tax is the major source of revenue for the government. Government collects tax under different headings. Income tax collected by the government is one of the major heading. Government collects income tax from various sectors. Commercial banks have significant proportion in total income tax collected by the government from different sectors.

The income tax is a vital source of the government revenue. There is no obligation to the third parties by mobilizing resources through taxation. Therefore it is most important and justification to increase tax revenue especially income tax creating tax liabilities to the individuals .Who make taxable income raises is known as personal income tax. However, individual become dishonest and hide the real income. They enjoy the weakness of tax law and escape from the tax administration. Similarly, the department can't find out the actual number of income tax payers.

On the other hand, the corporate tax is levied upon the profit of companies. There are some obvious arguments in favor of raising a large amount by way of corporation taxation in developing countries. The first is the ease of collection; corporations are easily identifiable, keep accounts and can't escape tax liabilities. In these respect, they are almost administration's dream. A further point is that tax collected in this way often appears painless. Therefore, it is seem that more income tax collection from corporation is possible for the economic development of the nation.

The number of commercial banks is increasing. Tax paid by the banks is also increasing. In this context there is a need of finding out contribution of commercial banks in total income tax. Past experience shows that, there is poor tax paying habit in Nepalese people as well as business house. There are various problems about income tax administration such as lack of proper record system about the number of income tax payers, defective selection of personnel, under delay in making assessment, lack of responsibilities of official on their work, existence of corruption, lack of motivation to tax personnel etc.

Commercial banks are corporate bodies. They are profit oriented organizations. They make profits from the financial transactions by rendering services to the public and business organizations and pay income tax to the government from their taxable income. There are also some problems in collection of income tax from commercial banks. Some commercial banks have not yet gone audited their accounts for five to six years. This practice must be eliminated for the more generation of income tax. On the other hands, it is seemed that commercial banks have appealed to revenue tribunal time to time. It is shows there is some weakness in tax assessment of such commercial banks and vague law and regulation of income tax and finance act. The major issues of the study are as follows:

1. Whether Commercial Banks contribute in the government treasury or not.
2. Whether Commercial Banks face any problem regarding income tax.
3. What are bankers relevant views regarding income tax.

1.4 Objectives of the study:

The main objectives of this thesis are as follows.

1. To study the contribution of tax collection from commercial banks in the government revenue.
2. To point out main income tax related problem faced by Commercial Banks
3. To analyze relevant views of bankers regarding income tax.
4. To provide suitable suggestions on the basis of analysis.

1.5 Limitation of the Study:

There are some limitations of the study, which are as follows:

1. Most of the data and information used in the study are based on secondary sources.
2. This study is confined to Nepalese laws, acts, rules and regulations to the income tax.
3. This study has concentrated on the income tax realization from commercial banks only.
4. This study has covered past five years of period (i.e from fiscal year 2004/2005 to 2008/2009)
5. Individual income tax and other heading of taxes have excluded in this study. This study has not concentrated on the tax planning, tax avoidance and tax evasion.
6. To know the opinion of bankers towards income tax a opinion survey has been conducted and it is limited within Kathmandu valley due to time, budget and other constraints.

1.6 Organization of the Study:

This study has been divided into five different chapters.

They are as follows:

1. Introduction
2. Review of literature
3. Research methodology
4. Presentation and analysis of data
5. Summary and conclusion and recommendation.

The first chapter is about introduction, which includes general background, statement of problems, and objective of the study, significant of the study, limitation of the study and organization of the study.

The second chapter is about review of literature. This chapter has been divided into three major parts; one is conceptual framework, which deals about the history of income tax in Nepal and its development phase at different time, all the related acts of income tax and its evolution at different stages has been presented.

Chapter three deals with research methodology used to achieve pre-determine objective of the study. This chapter elaborates the methodology used to conduct the study an tools and techniques used in analysis of data.

The fourth chapter is on presentation and analysis of data which basically includes diagrams, charts, percentage, mean and standard deviation.

Fifth chapter is conclusive chapter. This chapter presents major finding of analysis, its summary and conclusion and recommendations.

CHAPTER- 2
REVIEW OF LITERATURE

2.1 Income Tax

Income is generally regarded as the best measure of ability in the sense of economic well being, for living that a family enjoys. In a broad sense, income refers to the economic gain to a particular person during a particular period of time. It includes the person's consumptions during a particular period of time as well as the net increase in the individual's personal wealth during the same period. The term 'income' in a broad sense; it is an economic gain or receipt to a person during a particular period by way of wages, interest, profits, and rent. The money income of the people is used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as below:

$Y = C + S$

Where Y = Income

C = Consumption

S = Saving

But for the purpose of taxation the definition of income is somehow different from the abovementioned definition. "Income means the income as the cash or kind which is received from agriculture, industry, business, profession, or vocation, remuneration, house and land rent and other sources." (Income tax act 1974) (2031).

The new Income Tax Act, 2002(2058 B.S) was passed and implemented from 2058 Chaitra (2002). This act has defined the term income as "a person's income from any employment, business, or investment and the total of that income as calculated in accordance with this act".

2.1.1 The Special features of the Act

- The Act has broadened the tax base. Tax rates are spelled out in the Act itself and the tax rates and concessions are harmonized on equity grounds.
- A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.

- The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity, uniformity and the transparency. The Act has also defined the power and authority of the tax administration.

- The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

- The appeal system is further streamlined by making it mandatory for the taxpayers to file an objection with the Inland Revenue Department for administrative review before appealing to the Revenue Tribunal.

2.1.2 Income Heads

- The Act imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labor, capital and capital-labor mix activities that generate income from employment, investment and business respectively. The Act makes broad classification of income encompassing almost all income-earning activities. They are:

A. Employment (an individual's remuneration income from an employment for an income year)

B. Investment (profits and gains of a person from conducting an investment for an income year)

C. Business (profits and gains of a person from conducting a business for an income year)

D. Income and gains are ascertained only after deducting the corresponding expenses.

The income from each business and investment needs to be calculated separately.

Tax means income tax to be paid or would payable according to Income Tax Act or prevalent law of Nepal. According to this definition, tax includes fees, additional fees, deposited and fines. The constitution of kingdom of Nepal 2047, has prescribed that "No tax shall levied and collected except in accordance with law." Therefore only taxable income as calculated by the prevalent rule is subject to tax so that the objective and principle of taxation will be fulfilled. Income tax is levied on the income derives from business, agriculture, remuneration, professions, insurance investment agencies, and other sources derived in cash o kind. Income tax is levied on the taxable income of a company after deducting allowable expenses. Accounting profits may differ from taxable as a basic. All the incomes are added and expenses are subtracted and losses which are allowed to deduct under the provision of income Tax Act, is subtracted. Then tax free income is also deducted to get taxable income. The amount of tax to be levied on this computed income s the income tax. (Bhattarai, I, Koirala, GP, 2009).

2.2 Evolution of Taxation

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 to finance the war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1861, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886.

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951, the then Finance Minister in his budget speech declared the intention of the government to levy an income tax. 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 a flat rate. United Kingdom and Newzeland adopted principle of progression in 1909. Now a day the progressive rate is commonly used rather than flat rate in all over the world (Agrawal, 1978 P, 41)

2.2.1 Taxation in Ancient Nepal:

Taxation takes its earlier form in the actions of petty rules, scattered in various parts of the country, which extracted levies and tools from the travelers and merchants. Although, land tax was the major source of revenue in ancient Nepal, there exist irrigation tax, land tax and religious moment's preservation tax in the time of king Amsuvarma of Nepal. There was tax for purification of casts as well as cremation of the dead.

In ancient Nepal, taxes were levied in the form of Kind, Cash, and Labour. Specific portions of agriculture produce were payable to the king as tax. There also existed tax payable in gold. Fixed taxes were levied in the villages. Compulsory manual work from all artisans and laborers was also a common way of paying tax. The nature of taxation was temporary and taxes were raised for special purposes (Agrawal, 1980 P, 42)

2.2.2 Taxation during Unified Nepal (1768- 1816)

During the period 1786-1816 the major sources of revenue in Nepal were land and homestead taxes, monopolies customs, transit and market duties, mines and mints, the export of forest produce, birds, animals, and various levies and fines. Maximization of revenue was the main objective of the tax policies during that period. Local administrators were directed "to take whatever is paid willingly by the people". The taxes were usually collected at three levels:

i. Royal palace: to finance occasional and ceremonial needs. The taxes were broad based and progressive.
ii. Government: to finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.
iii. Local: perquisites of local officials, functionaries and mendicants.

Collection of customs, transit, market, and excise duties was given on contracts. In some parts of Terai, taxes were collected at specified rate on jewellery, textiles, falcons, horses, elephants, homespun cloth, yarn, blankets, borax, wax copper, iron, paper, tobacco, herbs, drugs, cotton, salt, yaks tail, musk, sheep, and goats. Levying duties on timber exports derived revenue from forests.

The various taxes levied during that 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 levied like "Darshan-Bhet", "Salami", "Walak", etc. There was no taxation of income in the modern sense of income tax.

2.2.3 Taxation during Rana Regime in Nepal (1847-1951)

No budget was over framed during the Rana regime. There was no difference between the income of the state and the income of the then prime Minister. The major sources of revenue in Nepal till 1951 were land tax, custom and excise duties in the form of lump sum contracts, royalties on felling of trees, royalty on supply of porters and soldiers, entertainment tax, and a few other minor taxes. There was no direct tax in the country except land tax collected on a contractual basis and “Salami” which the government employees used to pay out of their salaries at a very small percentage. The “Salami” was abolished in 1951. Since most of the revenue in Rana Nepal was collected by award of periodic contracts, the need was not felt for the development of effective revenue administration system.

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

2.2.4 Income Tax in Modern Nepal:

The role of government has been changed after the independence of the country in 1951. Government was enforced to perform development activities besides regular functions. So, it was realized to impose tax on business profits and remuneration. Consequently, Finance Act 1959 was passed. In 1961(2017), a formal Income Tax Act was enacted in accordance with the provision in finance Act, 1959 for the first time in Nepal. In three years experience, the business profit and Remuneration Act, 1960 was found very narrow and vague, and it was replaced by the Nepal Income Tax Act, 1961(2019). The income Tax Act 1962 remained till 1974 and Income Tax Act, 1974, also replaced it. Income Tax Act 2002 also replaced the Income Tax act 1974.

No tax shall be levied and collected except in accordance with law(Constitution of Kingdom of Nepal, 2047 sec. 73-1).The income law at present enforce in Nepal is Income Tax Act, 2002(2058) and Income Tax Rule 2002(2059) made there under. Finance Act is passed every year to translate the economic policy contained in the budget speech into law. It generally prescribes the rates and exemption limit for tax purposes and may delete, add or modify the provisions contained in the income tax act. The legal aspects of income tax, therefore, consist of provisions in the constitution, Income Tax Act, Finance Act, Income Tax Rules and decisions of the Supreme Court. Historical development of income tax law in Nepal is given below:

2.2.5 Business profit and Remuneration Tax Act 1960 (2017 B.S):

Income tax in Nepal was first introduced in the fiscal year 1959-60. It was then known as 'Business profit and remuneration tax'. The imposition of the tax was governed by the Business Profit and Remuneration tax Act 1960 and rules made there under. This act consisted 22 sections. The silent features of this act were as follows:

i. The basis for calculating the tax liability for remuneration was income of the current year, and for business profit, it was the profit at the preceding fiscal year.
ii. Deductions were not specified for the purposes of calculating the taxable income.
iii. Only remuneration and business profit were subjected to tax.
iv. Tax on remuneration was to be deducted at source.
v. The tax payer was given the right to appeal against tax assessment to local "Bada Hakim", thereafter; appeal could be lodged at Revenue court. Every appeal was to be accompanied by security deposit or guarantee for the amount of tax payable.
vi. The tax officer was empowered to assess tax on the basis o best judgment estimate where tax return was not filed or a false return was filed.
vii. In case of default, fines up to Rs 5000 were prescribed. The experience of three years indicated that the Business profit and remuneration Tax act was rather narrow and vague. So, it was replaced by the Nepal Income Tax Act 1962 (2019 B.S).

2.2.6 Income Tax Act 1962 (2019 B.S):

The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create tax paying habit of the tax payer. The Income Tax Act 1962 (2029) had 29 sections compared to 22 sections of the previous Act. It was amended in 1972 (2029):

i. Income was defined as all kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kind, agriculture, insurance business, agency and any other sources.

ii. Provision was made for payment of tax in installment as well as for advance payment of tax.
iii. Carry forward of losses was allowed for a period of two years.
iv. There were nine sources of income for tax purpose.
v. The personal as well as residential status of the tax payer for tax purposes was defined.
vi. The income tax assessment and collection procedures were specified along with the method of computing net income.
vii. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
viii. Provision was made for reassessment of tax as well as rectification of arithmetic errors.
ix. Provision was made for the exemption of income tax for new industries for certain period.
x. Agriculture income was brought under the scope of income tax for the first time. But the finance Act 2023 B.S. exempted this income fully from income tax. The finance Act 2030 B.S. again brought agriculture income under the scope of income tax. However, because of heavy political pressure, the Finance Act 2034 again exempted agriculture income under the scope of income tax.

2.2.7 Income Tax Act 1974 (2031 B.S):

Income Tax Act 1974(2031) had been implemented in place of Income Tax Act 1962(2019). Its basic framework had been derived from previous act and it had 66 sections with clear cut provision of self assessment, carry forward of losses for three years and precise definitions of related terms like tax, assessment of tax, year of income, income of non-residence taxpayers etc. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989, and 1992 to make it more practical and to eliminate confusing terms. In this act, certain provisions were added and some provisions amended from time to time so the income tax act 1974 had become more scientific and better organized with the progress of time.

Some of the main features of this act, 1974 as amended are as follows:

i. It had clarified certain definitions specially relating to tax, taxpayer, taxable income, gross income, net income, personal status of the taxpayers and non resident taxpayers, assessment of tax etc.

ii. Five sources of income had been specified. They were: i) agriculture ii)industry, trade, profession or occupation, iii) remuneration, iv) house and compound rents and v) others

iii. Method of computing net income from each source including the deductions allowable had been specified.

iv. It had been provision for self- assessment of tax for the first time in Nepal.

v. These were additional provisions of exemption from income tax then the former act such as income of Guthi, compensation for life insurance or after the expiry of the life insurance policy.

vi. The act had made its obligatory for taxpayers to register their industry, business, profession or vocation in the tax office. Any changes had also to be notified.

vii. Deduction was allowed for life insurance premium.

viii. Taxpayers were required to keep accounts and records for their source of income and preserve these records for a period of six years.

ix. Procedures of assessment, collection, payment and refund of tax have been streamlined. Powers for search and seizure had been specified. Penalties had been increased. Various forms related to income tax had also been specified.

x. Provision had been made for tax exemption, either full of partial, to the industrial enterprises, as provided in the existing Nepal Law relating to industrial enterprises, (Income Tax Act 1974).

2.2.8 Income Tax Act 2002 (2058 B.S):

Income Tax Act, 2002 (2058) is the existing law relating to income tax administration. This consists of 143 sections along with 24 chapters. This income tax act is made effective from 1st April, 2002 (2058 chaitra, 19). The objective of introducing the new act is to enhance the revenue mobilization through effective revenue collection procedure.

The main motto of this act is to promote the economic development of the nation. This new act has imposed the tax on income realized from every resident person situated in Nepal and has who received a final withholding payment during the year and who has taxable income for the year. This act has amended certain provision of the old Act and has added certain new provisions. Some of the important features of "Income Tax Act 2002" are as follows:

i. The governmental allowances to widow, elder citizens or disabled individuals, gift, bequest, inherence, scholarship, income of foreign officials, government bodied and non- profit organizations have been exempted from the income tax net. Amount of a person privileged under bilateral or multilateral treaty, an agricultural income, income of cooperate societies based on agriculture products and dividend of such society etc also exempted from income tax.
ii. Income Tax Act classified into three headings: i) Business ii) Employment iii) Investment.
iii. This act has defined the income as "a person's income from any employment, business, or in accordance with in this act. It includes all kind of income received for the provision of labour or capital or both in whatever from a nature in the taxable income.
iv. This act has given the option for husband and wife as separate natural individual until they don't accept as a couple.
v. This act focuses on the self-assessment system, and every assessment is treated as a self-assessment. The tax officers can determine only the amended tax assessment within four years.
vi. The tax broadened the tax base. Unlike previous tax act, tax rates have been spelled out in the Act. The tax rates and concessions have been harmonized on equity ground.
vii. The act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
viii. The act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.

ix. The act has made provisions for a stringent fine and penalty for the defaulters. There have been made provisions for punishment in the fines up to Rs. 300,000 and imprisonment on conviction up to 3 years.

x. Global incomes of a resident are made taxable. Non- residents are also taxed on their incomes with source in Nepal.

xi. List of expenses are inclusive. All expenses relating to income have been made admissible.

xii. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

xiii. This act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15 percent of the amount of approved medical costs.

xiv. A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to person’s assessable income for that year.

xv. Resident individuals and domestic companies are taxed on their world wide income while non-resident individuals and foreign companies are taxed only on their income sourced in Nepal.

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

xvii. Company is liable to pay tax separately from its shareholders. The bonus share, loans and advances to directors and shareholders distribution made on liquidation etc. are also brought under the tax net in order to plug loopholes for avoidance.

xviii. Investment insurance premium can be deducted as 7 percent insurance policy amount or Rs 100,000 which ever is less.

xix. Donation amount can be deducted as a 5 percent of adjusted income or Rs. 100,000 which ever is less.

xx. 7 percent of depreciation base amount of end of the year can be deducted as a repair and maintenance expenses and unreduced amount can be capitalized or excess repair and maintenance expenses can be added to depreciation base amount of coming income year (Income Tax Act, 2002).

xxi. Capital gains are taxed explicitly under this act after four decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and in case of non-business capital gains; only the gains from the causal sales of real property (land and buildings) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.

Special Provision for Banking and Business:

Income Tax Act, 2002 has made special provisions for banking business (section 59). According to this section, provisions given to that sector are as follows:

i. Prime Introduction: Banking business refers to the banking transactions of affiliated bank and financial institution in accordance with prevailing law according to Income Tax Act, 2002.

ii. Banking transaction: It refers accepting deposits for making loan and investment paying back it at the time of demand by saver according to Commercial Bank Act 1974(2031).

iii. Provision for risk bearing fund: Any provisions debited in the profit and loss account is not deductible according to the Income Tax Act, 2002. However the financial ordinance 2059 has amended it and provision has been made to claim for deduction of risk bearing fund up to 5 % of outstanding loans that was only 3% according to Income Tax Act 1974.

iv. Written off loan loss: Loan loss of banks can be written off in compliance with NRB guidelines and it can be treated in the debit side of profit and loss account as expenditure for carry back of losses but it is not allowed if this amount has already deducted from income as risk bearing fund.

v. Carry back of loss: Loss of any year from banking business can be carried back to the past five years for deduction of it from income of those years.

vi. Interest suspense: As per direction by NRB to the banking, no interest can be treated as income on the accrual basis. Interest suspense account should be opened if the interest earned but not received in cash within one month. This type of income is given tax exemption by Income Tax Act, 1974 and it is continued by this act issuing the Finance ordinance 2059.

2.3 Corporate Tax and its development in Nepal

2.3.1 Concept

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separated and distinct from its individual members. A company like a natural person can do everything. It can conduct a lawful business and enter into contracts with others in its own name; corporate bodies conduct businesses and make profits. Tax levied on corporate profit is known as corporate profits. Therefore, corporate tax is a tax levied on companies or corporate bodied in contrast to unincorporated enterprises. The history of this tax was started from 1909 in USA when 1 percent excise was levied on corporations i.e companied on the ground of the privilege the enjoy. Since then corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries.

2.3.2 Development of Corporate tax in Nepal

Corporate tax was introduced only in 1960 with enactment of the business profit and Remuneration Tax Act, 1960 at the first time. All the tax payers' persons, companies and private firms were imposed at the same rate with progressive and exemption limit prescribed by Finance Act 1960. The tax exemption limit given to companies same as to personal tax payer was eliminated in the fiscal year 1965/66.In 1986/87, a flat rate corporate tax was introduced for government corporations and public limited corporations listed with the security exchange center. Corporate tax was extended to private limited companies in 1993/94 and partnership firms in 1995/96.

The income tax act 1974 with some changes and new provisions than old one. The finance Act of 1976 under this act introduced a separate to companies. Similarly, the finance Act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. The fiscal year 1986/87 changed the nature of tax rate to the corporate bodies (Companies from progressive tax rate to flat tax rate).In this time the tax rate was 40% flat rate to all listed companies. Compulsory self-tax assessment system for public and private limited companies was introduced in the finance Act, 1992. The additional changes was made that taxing corporate income at flat rate to the private limited company was enacted from the financial year 1994/95. Another major change carried out in the fiscal year 1998/99 was the inclusion of dividend of non-industrial companies with in the tax net.

2.4 Tax Incentives

Tax incentives are concessions facilities and rebates granted to corporate bodies. These incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or a variety of taxes and special allowances for a certain period to motivation the new as well as existing organizations for balanced regional development, Production of primary goods and to development the corporate bodies. It increases the habit of saving and encourages the investment by means of equity shares purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

The most popular tax incentives provided to various types of activities in different countries of the world are tax holiday, investment allowance or tax credit, accelerated depreciation rate tax rate reduction and carry forward of losses. Tax holiday is the holiday from tax for certain period. Any industry, which has granted such type to incentive, needs not to pay tax for certain period from the commencement of its business activities.

On the other hand, investment allowance or tax credit is the incentive provided for capital investment. It is granted in the first year of investment on assets. This type of is beneficial for the large enterprises but not for small one. Other technique of providing incentive is tax reduction. This type of tax incentive is equitable to all type of corporations whether large or small, new or old. Another technique of tax incentive is set off and carry forward of losses. In this technique, the losses of the previous years can be deducted from the subsequent year's profit. (Kandel P.R, 2000)

Special provisions for Entity

- An entity is liable to tax separately from its beneficiary who is defined as any person having an interest in an entity. Unless stated otherwise in the Act, transactions between an entity and its managers and beneficiaries are recognized.
- The profit of entities can either be retained or distributed to its beneficiaries such as shareholders. The entity can also repay capital or grant collateral benefits to them. Collateral benefit, which can be characterized as a kind of hidden distribution of profit. Distributions of profits and collateral benefits are dividends representing a return of interest in capital, and need to be distinguished from repayment of capital, which is the return of the capital itself. For that the Act provides a profit first rule saying that a distribution is a return of capital to the extent that it is not a distribution of profits. If the entity repays capital it is free of tax.

- Dividends of a resident company are taxed to the company's shareholders in the form of a final withholding tax. The re-distribution of such taxed dividend is tax free. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by inclusion in calculating the income of the beneficiary.
- Besides these general provisions the Act contains detailed provisions for liquidations of entities, for dealings between an entity and a beneficiary, for changes in control of an entity and for dividend stripping.

2.5 Income Tax Administration in Nepal

The government of each country wants to make sound economic condition and developed country. It is only possible, when administration works well and provides feedback to the government to make policies and programmed in related area because administration is the heart of any system. The objectives of the government can be achieved through sound administration, which is the basic requirement of Nepal. It is tax administration that determines the policies and programmed related to tax. Specially, it is the planning, organizing, directing, coordinating and controlling of government organization related to taxation.

Income tax Act 2058 has made a provision regarding the design of tax administration. The body that administers the income tax and other tax is Inland Revenue Department. Revenue division of the Ministry of Finance is basically responsible to formulate the tax related policies. Earlier there were two separate department of taxation. Income tax was under the scope of Department of Taxation. The two major components of Nepalese tax administration are: Inland Revenue Department and Inland Revenue Office.

2.5.1 Inland Revenue Department (IRD)

Inland Revenue Department is currently responsible for the enforcement of Tax Laws and administration of the following taxes: Income Tax, Value Added Tax, Excise Duty, Vehicle Tax and certain fee and duties like Entertainment fee (Film Development Fee), Special fee, etc. Likewise, the Department is also responsible for monitoring the non-tax revenue such as dividends, royalties etc. of the Government.

IRD carries out the following functions:

1. Tax Administration (Income Tax and VAT)
2.Tax Policy
3.Tax Payer Services
4.Registration, Revenue Collection
5.Tax audit
6.Tax Enforcement and investigation
7.Review & Appeal
8.Tax Refund
9.Advance Ruling
10.Tax Treaty and International Taxation
11.Excises and Liquor Administration
12.Monitoring of non-tax

IRD is centrally located in Kathmandu. There are 22 field offices throughout the Kingdom including a Large Taxpayers Office located in Kathmandu. The previous Department of Taxation was established in 1960. IRD and its district offices are totally running on functional line. Major functions include Taxpayer`s Service, Audit and Collection.

2.5.2 Inland Revenue Office (IRO):

The IRD is responsible for qualitative improvement of tax assessment, personnel administration, controls irregularities, corruption and implementation of tax policies and laws. IRD has no authority to make tax assessment. There are 21 Inland Revenue Offices all over the country. The major 4 are headed by chief tax administration and others headed by chief tax offices are liable for public relation, information, identification, of taxpayers, assessment of taxpayer's income, assessment of income tax, income tax realization and providing feedback to policy and lawmakers. The real problems of income tax system can be found through the experience of Inland Revenue Officers. Therefore, the total number of personnel under Inland Revenue Department along with its field offices is 920. There are 8 gazetted level class I officers. Similarly, there are 49 gazetted level class II officers. 199 gazetted level class III officers, 366 non-gazetted level administrative assistants, 138 technical assistants and 160 peons. (Annual Report of IRD, 2063/64)

2.5.3 Taxpayers Right and Assurance

In addition to the specific rights and assurances provided in the concerned Acts, taxpayers in general are assured of the following rights. These assurances will be strictly adhered to. The Taxpayers rights, among others, include:

A. Each taxpayer is treated with due respect and honor.

B. Each taxpayer will get an immediate receipt of return submission whilst a receipt of other correspondences is to be provided in ONE hour.

C. Each taxpayer willing to seek an advance ruling may apply either in the Department or through concerned Inland Revenue Office. There is a legal provision that a decision should be made within 45 days after the request is made.

D. Each taxpayer can represent or make any correspondence by an authorized person including legal assistants and the accounts specialist or auditors just in case if he/she is unable to represent or make any correspondence.

E. Each taxpayer is to get copies of the documents related with him/her or submitted to the IRO or documents or decisions affecting her/him generally in TWENTY FOUR hours of his/her request in the concerned IRO.

F. Each taxpayer is to get refund of his excess input tax (VAT) and other taxes. The exporter will get refund generally within 15 days in IROs and 30 days in IRD upon receiving application for refund.

G. Each taxpayer is to get certificate/renewal of Excise/Liquor business generally within TWENTY FOUR hour after the request is made.

H. Each taxpayer is to get sales and purchase books certified by the Tax Officer generally within TWENTY FOUR hours after the request is made.

I. Each taxpayer is to get initials of the Tax Officer on stock transfer or sales to the non-registrants generally within TWENTY FOUR hours after the request is made.

J. Each taxpayer is to get Permanent Accounts Number (PAN) or the Certificate generally within 3 days after the request is made, and

K. Each taxpayer is to get Tax Clearance Certificate generally within TWENTY FOUR hours after the request is made.

2.7 Review of Articles

In 2001, Govinda Bahadur Thapa published an article entitled “Practical Issues in Income Taxation” in Rajaswa. He has focused on income tax is an important source of revenue of the modern government. This tax is not only for revenue but also for attaining equity. However, being a direct tax in incomes and profit, these are several practical issues to be settled before it becomes revenue productive as well as equity achiever. Defining taxable income and tax paying units, determining appropriate rate structure and methods of tax assessment are some of such issues. Which are instrumental to make the income tax system effective. This article also analyses and explains the theoretical basis to settle these issues (Thapa, 2001:20-30).

In 2001, Puspa Kandel published an article entitled” Draft of Income Tax Act 2001 Critical Analysis” in Rajaswa. Kandel has criticized the Income Tax Act 2002 on several grounds. Exemption of agricultural income from income tax, expert duties levied on export, inequality between different capitals earned income (i.e. interest, dividend and capital gain), and withdrawal of the provision of exemption suddenly and no adjustments for inflation are the major issues he raised in his article. He also criticized tax regime crates more tax burden then the former one. He further criticized the act for the provision of income tax base.(Kandel,2001:65-73)

Many provisions of previous income tax Act 1974 have been changed, after the implementation of new income tax act. Therefore, considering the lack of the study with reference to newly implemented “Income tax act 2002” this study has been conducted.

2.6 Review of Thesis:

There is only one study conducted in this specific topic. Rabindra Shakya conducted a study on the topic “A study on income tax collection from commercial Bank” in 2003. Objective of the study were: i) to evaluate the contribution of income tax paid by commercial bank in the government revenue. ii) to assess the contribution of income tax paid by commercial banks on total income tax and total tax revenue of the government. iii) to point out main income tax related problems faced by commercial banks. iv) to analyzed relevant opinion and views of bankers regarding income tax. v) to put forward necessary suggestion and recommendations for income taxation with reference to commercial banks.(Shakya, 2003: 5)

In 1986, Shambhunath Regmi conducted a research entitled “The role of Income Tax in Nepal”. Objective of the study were: i) to examine the trend of income tax in Nepal. ii) to ascertain the share of income tax in total tax revenue and gross domestic product. His findings were: Income tax can check the inflationary trend within the country as well as it directs the flow of resources of the economy into useful and productive channels and increase the productive capacity of the economy; in the comparison of two other tax revenue, such as land revenue and custom, the income tax revenue has an increasing trend.

Regmi suggested applying the scientific method for the purpose of accounting assessment and collection of income tax (Regmi, 1986:66-73)

In 1994, Hari Bahadur Bhandari had conducted a research entitled “Contribution of Income Tax to Economic development of Nepal”. The major objectives of study were: i) to examine the Nepalese income structure. ii) to examine the contribution of income tax to the economic development of Nepal. iii) to identify the factors to increase tax- paying habit of income tax payers. He found the poor tax paying habit of Nepalese people and there is no close co-ordination and better communication system between taxpayer and tax personnel in Nepal. He suggested that there should be effective personnel management and close co-ordination and better communication system between taxpayer and tax personnel. (Bhandari,1991:121-134)

In 1995, Shiva Narayan Shahu had conducted a research entitled “Contribution of Income Tax in National Revenue of Nepal.” Shahu was mainly centered with the real situation and share of income tax in national revenue on Nepal. He had shown the contribution of income tax in the total tax revenue and total revenue was 9.95 percent and 7.49 percent respectively. Income tax had been gradually increasing except for 1990/91 and 1991/92 during the study period and income tax was in the fourth place in the tax structure. The individual taxpayers had higher contribution than the wage earners (Shahu, 1995: 66-71)

In 1995, Krishna Kumar Shakya had conducted a research entitled” Income Tax structure of Nepal”. The main objective of this study were: i) to analyze the cause of heavy reliance on direct tax, ii) to analyze the volume of indirect tax revenue and direct tax revenue in total tax structure. His study was concentrated on the contribution of direct tax and indirect tax and on cause of government inefficiency in income tax administration. He found the income tax to GDP, total revenue, and direct tax revenue was increasing trend. He suggested for program oriented fiscal policy and recommended that VAT be a major source of indirect tax in liberalized economy. For small taxpayers he suggested for door-to-door services (Shakya, 1995:102-107).

In 2003, Narayan Prasad Luitel had conducted a research entitled “Contribution of income tax to the government revenue of Nepal”. The main objective of this study were: i) to examine the effectiveness of income tax structure in Nepal, ii) to analyze the contribution of income tax to the government revenue of Nepal, iii) to examine the problems in income tax collection, iv) to examine the problems in income tax administration, v) to provide the suitable recommendation and suggestion. He found the major sources of government revenue are customs, VAT, income tax and excise duties in the structure of government revenue, the increasing gap between government expenditure and revenue, government revenue consists of tax and non-tax revenue, Nepalese tax revenue is the composition of direct and indirect tax revenue. He suggest that to recoup the growing resource gap problem, government should mobilize internal resources through effective implementation of revenue collection from income tax (Luitel, 2003: 88-92)

CHAPTER– 3
RESEARCH METHODOLOGY

Contribution of income tax from Commercial banks is very significant in Nepal. The main objective of this study is to find the contribution of income tax from commercial bank to government revenue of Nepal. Tax is the best and reasonable source of national revenue in Nepal. The trend of income tax realization and associated problems should be studied time to time to find out the ways for proper solution and to collect maximum tax revenue. Commercial banks are also the corporate tax payers to the nation. The study of banking in respect of tax payment may be base for investigation of potential tax sources. As a result the nation can widen the scope of tax net having positive impact on income tax collection. This study carried out to analyze the tax contribution of commercial banks in the national receipts and problems relating to income tax payment. The research methodology contains research design, data sources, data collection procedure tools for analyses and methods used in the report presentation.

3.1 Research Design:

The data and information of the study are concerned with past phenomena of the performance. Therefore, it can be regarded as historical research design. The study of income Tax Act, rules and regulation and other related acts are done to achieve the stated objective of the study, for making the study descriptive. Thus the research methodology followed in the study can be termed as analytical as well as descriptive research design.

3.2 Population and Sample

There are 26 Commercial Banks are in operation. Population for this study incorporates all these companies. Among which 10 companies are taken for the study. Most of the companies are old and involved in paying tax.

List of Commercial Banks or Total population of the study

1) Nepal Bank Ltd

2) Rastriya Banijya Bank Ltd

3) Nabil Bank Ltd

4) Nepal Investment Bank Ltd

5) Himalayan Bank Ltd

6) Standard Chartered Bank Ltd

7) Nepal SBI Bank Ltd

8) Nepal Bangladesh Bank Ltd

9) Everest Bank Ltd

10) Bank of Kathmandu Ltd

11) Nepal Credit and commerce Bank Ltd

12) Lumbini Bank Ltd

13) Nepal Industrial and commercial Bank Ltd

14) Machhapuchhre Bank Ltd

15) Kumari Bank Ltd

16) Laxmi Bank Ltd

17) Siddhartha Bank Ltd

18) Agriculture development Bank

19) Global Bank Ltd

20) Citizen Bank International Ltd

21) Prime commercial Bank Ltd

22) Bank of Asia Nepal Ltd

23) Sunrise bank Ltd

24) Development credit bank Ltd

25) NMB Bank Ltd

26) Kist bank Ltd

3.3 Nature and Source of Data

It is an empirical study based on primary as well as secondary data. But most of the data and information used in the study are based on secondary sources. This study attempts to test the Income Tax collection from Commercial banks to government revenue by taking sample companies among population sample.

3.3.1 Primary Source of Data:

The primary data have been collected from the responses of person relating to Commercial Banking at Kathmandu Valley. Number of questionnaire are 20, which are asked to sample banks at Kathmandu valley.

3.3.2 Secondary Sources of Data:

The secondary sources of data are the information received from annual report of bank books, journals, newspaper, reports, and dissertations etc.

The major sources of secondary data are as follows:

1. Published documents and annual report of Nepal Rastra Bank.
2. Published report and seminar paper of CEDA central library
3. Published books article, unpublished thesis and dissertation on the concern subject area.
4. Annual report and statistical abstracts of Inland Revenue department.
5. Some publication of central Bureau statistics.
6. Publication of Nepal government, ministry of finance i.e. Budget speeches and economic surveys.
7. Annual report of commercial banks from fiscal year 2004/2005 to 2008/2009.

3.4 Data Processing and Analysis Procedures:

The collected data and information from different sources of income tax will be processed for tabulation and analysis. According to the subject matter and requirement, the data were tabulated into separate tables and format.

3.5 Statistical and Mathematical Tools

In course of the study statistical as well as mathematical tools were used. Mathematical and statistical tools used for the purpose of this study are described below

3.5.1 Arithmetic Mean

If the series of n values of a variable X are X1, X2…….Xn, the arithmetic mean of these values is defined as:

A.M = Sum of values

Or,

$\overline{X} = \sum X / n$

3.5.2 Variance and Standard deviation

Coefficient of variance is measured by standard deviation by mean multiply by hundred, the standard deviation, is used to measured the deviation from the mean value. It is measured by:

S.D = $\sqrt{\sum (X - \overline{X})2 / n}$

C.V= S.D/ $\overline{X}$ *100

Where,

n = No of period

X = the number of historically observed data

$\overline{X}$ = Arithmetic Mean

S.D= Standard deviation

C.V= Coefficient of Variance

3.6 Conduct of interviews and Questionnaire administration

Questionnaire method was also employed in this research to achieve objective. For the research purpose 20 questions were design, which are asked to sample banks. There are three types of questions were given for them to answer. The first types of questions were asked for a Yes/No response. The second types of questions were asked for ranking of choices according to number of alternatives where first choice was the most important and last choice was the least important. The third types of questions were of choosing the alternative thought best by the respondent. These three types of questionnaires do not follow each other but rather compliment each other in order to get the desired result.

CHAPTER- 4

PRESENTATION AND ANALYSIS OF DATA

This chapter includes presentation of collected data and its analysis. With reference to various readings and literature reviewed, and methodology prescribed in the preceding chapters. Effort is made to analyze and diagnose the Tax Collection from Commercial Banks. Different tables and diagrams are drawn to make the result more simple and understandable.

4.1 Structure of Nepalese Government Revenue

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. The 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. The government revenue is therefore, the mix (combination) of tax revenue and non-tax revenue consist various sources.

Mostly, income of the government is 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, 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 products, 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 services- oriented organizations. Similarly, royalty from mine is also the non-tax revenue of the government.

Table No. 4.1

Structure of Government Revenue in Nepal

(Fiscal year 2004/2005 to 2008/2009)

Rs in million

Fiscal year	Customs Duties	Excise	Sales Tax (VAT)	Income Tax With other	Land Revenue &Registration	Income tax With other	Total Tax Revenue	Non-Tax Revenue	Total revenue Of Govt
2004/05	15701.5	6446.3	18897.9	10456	1799.2	806.1	54107	16017.9	70124.9
2005/06	15343.7	6506.5	21615.4	10933.5	2180.3	847.6	57427	14855.1	72282.1
2006/07	16699.3	9343.6	26145.4	15730	2238.7	1011	71168	16544.1	87712.1
2007/08	21062.6	11229.2	29784.6	19067.5	2933	1070.2	85147.1	22475.6	107622.7
2008/09	26622.5	16272.5	39604.2	27479.6	5248.5	1824.5	117051.8	26422.6	143474.4

Source: Economic Survey of Various year, Ministry of Finance HMG/N

Table No.4.1.1

Structure of Government Revenue in Nepal

(Fiscal year 2004/2005 to 2008/2009)

In Percentage

Fiscal year	Customs Duties	Excise	Sales Tax (VAT)	Income Tax With other	Land Revenue And Registration	Income tax With other	Total Tax Revenue	Non-Tax Revenue	Total revenue of Government
2004/05	22.4	9.2	26.9	14.9	2.6	1.15	77.16	22.84	100
2005/06	21.2	9	29.9	15.13	3.01	1.17	79.44	20.55	100
2006/07	19.03	10.7	29.8	17.93	2.5	1.15	81.13	16.9	100
2007/08	19.6	10.4	27.67	17.72	2.72	0.99	79.1	13.8	100
2008/09	18.5	11.3	27.6	19.15	3.65	1.27	81.58	10.35	100

Source: Quarterly Economic Bulletin, 2009, NRB
Income tax with others= Income tax + other miscellaneous direct tax

The structure of Government Revenue in Nepal has been presented in Table 4.1 and 4.1.1 from the fiscal year 2004/2005 to 2008/ 2009. Custom has occupied the supreme position among tax revenue. In the fiscal year 2004/2005, the share of custom duty was 22.4% of total government revenue. Then it decrease to 21.2% in the fiscal year 2005/2006. In fiscal year 2006/2007 it was 19.03%. In fiscal year 2007/2008 it slightly increased to 19.65. The rate of custom was 18.5% in fiscal year 2008/2009, which is very low among 5 years. The rate of custom is more in fiscal year 2004/2005 among 5 years, which was 22.4%. The reason behind highest custom duty is increasing export, import.

Revenue from sales tax (VAT) has been slightly being volatile. In the fiscal year 2004/2005 it was 26.9% i.e. Rs 18897.9 million. But it increased to 29.9% in the year 2005/2006. In the fiscal year 2006/2007, it has slightly decreased to 29.8%. It again decreased to 27.67% and 27.6% (i.e. Rs 29784.6 million and 39604.2 million) in the fiscal year 2007/2008 and 2008/2009 respectively.

The income tax with other direct taxes has been in the increasing order. Except 2007/2008 it has gradually increased up to fiscal year 2008/2009. In the fiscal year 2004/2005 it was 14.9% (i.e. 10456 million).Then it was increased to 15.13 % in the fiscal year 2005/2006. There after it was 17.93%, 17.72%, and 19.15% in the fiscal year 2006/2007, 2007/2008, 2008/2009 respectively. The rate of income tax was highest in the fiscal year 2008/2009 among 5 years, which is 19.15%.

The excise duty is also indirect tax, which is imposed in the liquor production and other industrial production. In the fiscal year 2004/2005 it was 9.2% (i.e. 6446.3 million). It had been slightly decreased to 9% in the fiscal year 2005/2006. Thereafter it was increased to 10.7% in the fiscal year 2006/2007. In the fiscal year 2007/2008 it was 10.4%, which is slightly lower than previous year. It was than increased to 11.3% in the fiscal year 2008/2009, which is highest among 5 year.

The land tax that includes land registration fee is also a kind of direct tax. The share of this tax was 2.6 %(i.e.1799.2 million) in the fiscal year 2004/2005. It was increased to 3.01 %(i.e.2180.3 million) in the fiscal year 2005/2006. In the fiscal year 2006/2007 it was decreased to 2.5 %(i.e.2238 million). It was collected 2.72%, 3.65 %(i.e. 2933 million and 5248.5 million) in the year 2007/2008 and 2008/2009 respectively.

Non-tax revenue constitutes a major part in the structure of government revenue. Non-tax revenue was 22.84% (i.e. 16017.9 million) in the fiscal year 2004/2005. It has been decreased to 20.55%.16.9%, 13.8%. 10.35% was in fiscal year 2005/2006, 2006/2007, 2007/2008 and 2008/2009. Non-tax revenue was highest in the fiscal year 200472005 which is 22.84%.

In the conclusion, the composition of government revenue has different types of tax and non- tax revenue items. The income tax is increasing order from beginning of analysis (except fiscal year 2007/2008) and it seems to be progressive in future. This is denoted by higher growth rate of this revenue item.

4.2 Tax and non-tax revenue in Nepal

Tax revenue has also direct 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, charges, 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. 4.3 shows the comparison between tax revenue and non-tax revenue collection.

Table No. 4.2

Composition of Tax and Non-Tax Revenue of Nepal

(Fiscal year 2004/2005 to 2008/2009)

Rs. in million

Fiscal year	Total Revenue	Tax Revenue		Non- Tax Revenue	
	In Rs.	In Rs	In %	In Rs.	In %
2004/2005	70124.9	54104.9	77.16	16017.9	22.84
2005/2006	72282.1	57427	79.44	14855.1	20.55
2006/2007	87712.1	71168	81.13	16544.1	16.9
2007/2008	107622.7	85147	79.1	22475.6	13.8
2008/2009	143474.4	117051.8	81.58	26422.6	10.35

Source: Quarterly Economic Bulletin, 2009, NRB

As shown in the table 4.2, the share of tax revenue has always been greater than the share of non-tax revenue. In the fiscal year 2004/2005, tax revenue contributed 77.16%. From the year 2005/2006 to 2006/2007, the amount of tax revenue found increasing to 79.44% and 81.13% respectively. In the year 2007/2008, it was slightly decreased to 79.1%. In fiscal year 2008/2009 it was increased to 81.58%, which is highest ratio among 5 year.

Trend of non- tax revenue collection was decreasing. It was 22.84% in the fiscal year 2004/2005. It was decreasing trend from 2005/2006 to 2008/2009 which is 20.55%, 16.9%, 13.8%, 10.35% respectively. Contribution of non-tax revenue to the total revenue has maximum level of 22.84% in the year 2004/2005, where as it was to the minimum level of 10.35% in the fiscal year 2008/2009.

Chart No. 4.1

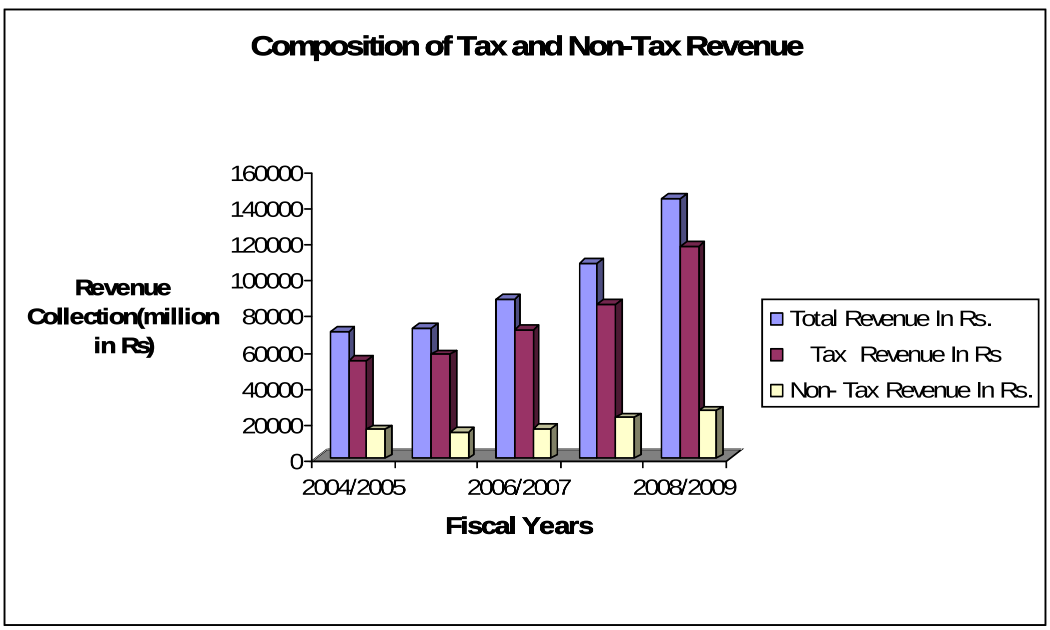


Chart No. 4.1 shows the composition of tax revenue and non-tax revenue. Total revenue is the combination of tax revenue and non- tax revenue. The above analytical comparison, thus, showed that the tax revenue is more contributing than that of non-tax revenue. Tax revenue was low in the year 2004/2005 i.e. 7.16%. When non-tax revenue was realized 22.84% the highest realization rate in the same fiscal year. This analysis also showed the average revenue collection through tax revenue and non-tax revenue (averaging for last five years). This chart shows the highest total revenue collection from the year 2008/2009. Tax revenue also highest in that year but non-tax revenue was lowest among 5 years.

4.3 Ratio of Direct tax in Total Tax revenue and Total Revenue

Tax revenue is divided in two classes one is direct and the 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 can't be realized by the taxpayer from other persons. He must pay it from his own pocket. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax, and others 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 example of indirect tax.

Table No.4.3

Ratio of Direct tax in Total Tax Revenue and Total Revenue

Rs in million

Fiscal year	Total Revenue	Total Tax Revenue	Direct Tax	Direct Tax on Total Revenue	Direct Tax on Total Tax Revenue
2004/2005	70124.9	54104.9	12255.2	17.47	22.6
2005/2006	72282.1	57427	18961.8	26.23	33
2006/2007	87712.1	71168	18979.6	21.6	26.6
2007/2008	107622.7	85147	28070.8	26.08	32.9
2008/2009	143474.4	117051.8	34553	24.08	29.5

Source: Quarterly economic Bulletin, 2009, NRB

Chart No. 4.2

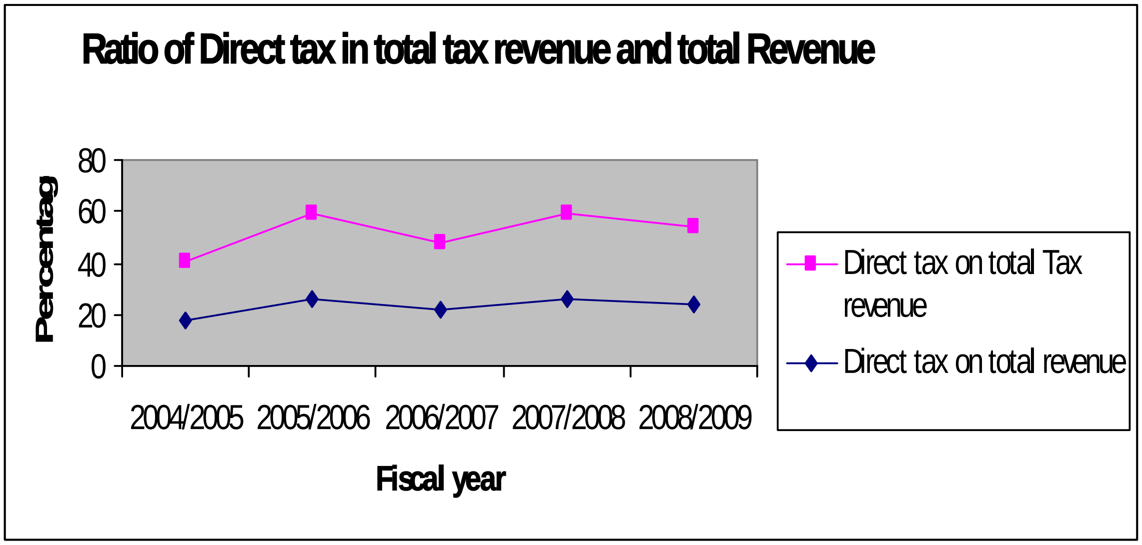


Table 4.3 and chart 4.2 shows the combination of direct tax in total tax revenue and total revenue. Direct tax on total revenue was 17.47%, which was 22.6% on total tax revenue in the fiscal year 2004/2005. In that year Rs.12255.2 million was collected from the direct tax. Direct tax on total revenue was increasing in next four year. It was 26.23%, 21.6%, 26.08%, 24.08% in the fiscal year 2005/2006, 2006/2007, 2007/2008, 2008/2009. This interpretation shows that the trend of direct tax collection is positive i.e. it is in increasing order. The reason behind increasing was the increment of income tax collection and other direct taxes. The income tax collection has been increasing due to increasing number of taxpayers and their taxable revenue and profit.

4.4 Structure of Income Tax in Nepal

The structure of income tax of Nepal is the composition of tax from Government enterprises, public enterprises, private Ltd Companies, individual's remuneration and tax on interest. Government enterprises consist of 100 percent Government ownership, public enterprises includes majority in the ownership of Government. A private corporate body means public limited companies. Individuals denote sole traders, partnership, and private limited companies. Remuneration refers to salaries earned from the services provided to government and non- government sectors. The Government, therefore, imposes income tax upon the person (individuals, firms and companies) earning taxable incomes, without direct benefit to them.

Income Tax Act, 2002 has clearly defined the related terms. It has defined the tax head for computation of tax liabilities. According to this law, three income headings including various receipts are mentioned as follows:

1) Income from business. This head of income includes income and profit from industry, business, profession, and from other business transactions, professional fees, and service fees, sales proceeds from disposal of depreciable assets, business gifts, receipts from business restriction and receipts of amount from directly related to business.
2) Income from employment: This head of income includes various receipts. They are wages, salaries, allowances, fees, commission, award, gift, bonus and other facilities. The other facilities include additional payments for Dashain, housing facility, vehicle facility and telephone facility and so on. Similarly, dearness allowance, house rent, entertainment, transportation and cost of living expenses are also the remuneration incomes of employees. Besides these, receipts made in agreement of doing job and any receipts in retirement contribution and other amount prescribed by income tax act are the subject to tax.
3) Income from investment: The third head of income is investment income, which includes various incomes received by investing assets in any business sector. They are dividend, interest, rent receipts from investment insurance, gain from unrecognized retirement fund. It also includes proceeds from sale of non-business assets. Capital gains from disposal of depreciable assets, gifts received in relation with investment, amount received in the acceptance of restriction of investment and others.

Thus taxable income is the composition of above mentioned various income sources. Income tax is divided into two types in broad sense viz. personal income tax and corporate income tax. Both have different income sources. Corporate tax is a composition of three taxpayers. They are government enterprises, public limited company. Individual income tax includes income tax from remuneration, industries, trade and profession of individual. Besides these, rent and interest taxes are also included in income tax.

Table No. 4.4

Structure of Income Tax Revenue in Nepal

Rs in million

Fiscal Years	2004/05		2005/06		2006/07		2007/08		2008/09	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
A.Corporate Income Tax	4838.6		5327.3		5395.7		11515.8		9767.7	
i. Government Enterprises	2056.6	21.6	1331.5	12.7	185.8	1.7	1018.3	6.5	183.9	1.06
ii.Public Ltd.Co.	1531.2	16.09	2467.6	23.6	3537.4	32.4	5711.3	36.9	7110.4	41
iii.Pvt. Ltd Co.	1250.8	13.14	1528.1	14.6	1687	15.5	4786.2	30.6	2473.3	14.27
B.Individual Income Tax	3539.4		3871.6		4234.6		2510		5971.1	
i.Remuneration	1391.5	14.6	1676.9	16.04	1751.5	16	2028.8	12.9	2294.5	13.2
ii.Industry, trade and Profession	2147.9	22.6	2194.7	20.9	2483.1	22.7	481.2	3.08	3376.6	19.5
C.House &Compound Rent Tax	403.2	4.2	496.3	4.7	509	4.7	599	3.83	627.2	3.6
D. Interest Tax	733.3	7.7	757.3	7.2	757	6.9	996.1	6.3	961.7	5.5
Total(A+B+C+D)	9514.8		10453.6		10896.4		15621.4		17327.9	
Growth Rate	18.06		9.9		9.16		43.36		10.92	

Source: Annual Report of IRD, 2008/2009

$$\text{Growth Rate} = \frac{\text{Current year's collection- Previous year's collection}}{\text{Current year's collection}} \times 100$$

The trend of income tax realization in showed in table no 4.5 for the last five years. According to the table the total income tax realization in the fiscal year 2004/2005 was Rs.9514.8 million. Total income tax has increased in every fiscal year from fiscal year 2004/2005 to 2008/2009. It has increased from Rs. 9514.8 million to Rs. 17327.9 million. The contribution in income tax from government enterprises decreased from Rs 2056.6 million to Rs 183.9 million from the fiscal year 2004/2005 to 2008/2009. The contribution of public enterprises is increasing in trend each year. In the fiscal year 2004/2005 it was Rs 1531.2 million. It was increasing slowly each year from 2004/2005 to 2008/2009 is Rs 1531.2 million, Rs 2467.6 million, Rs 3537.4 million, Rs 5711.3, Rs 7110.4 million respectively.

The share in income tax from private Ltd companies was fluctuating in trend. It was increasing from fiscal year 2004/2005 to 2007/2008 is Rs 1250.8 million, Rs 1528.1 million, Rs. 1687 million, Rs. 4786.2 million respectively. But it was decrease in the fiscal year 2008/2009 is Rs 2473.3 million.

The contribution in income tax revenue from individual tax has in increasing trend from fiscal year 2004/2005 to 2008/2009 except in the year 2007/2008. The revenue from individual taxpayer increased from Rs. 3539.4 million in the year 2004/2005 to Rs 5971.1 million in the year 2008/2009. In the year 2007/2008 it was decreased to Rs 2510 million.

The revenue collection from house rent was increasing trend from fiscal year 2004/2005 to 2008/2009 is Rs 403.2 million, Rs 496.3 million, Rs 509 million, Rs 599 million, Rs 627.2 million respectively. Income tax from the tax on interest is also fluctuating in trend in the fiscal year 2004/2005 to 2008/2009 is Rs 733.3 million, Rs 757.3 million, Rs 757 million , Rs 996.1 million, Rs 961.7 million respectively

Chart No. 4.3

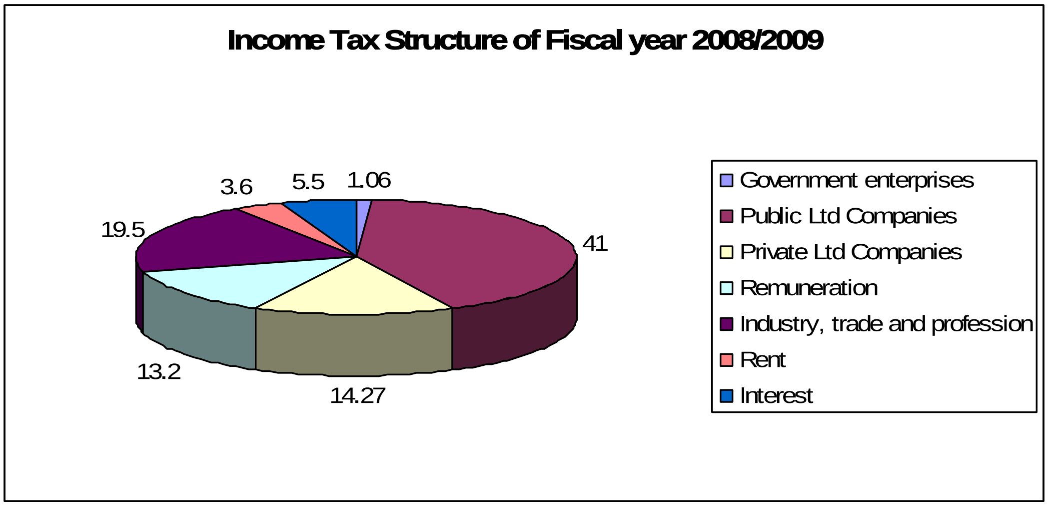


Chart No. 4.3 shows that the Income tax structure of fiscal year 2008/2009. Public Ltd Companies have largest share in income tax structure. Nepal Telecom to consolidate its position as the largest taxpayer of the country during the year. So, Public Ltd Companies have largest share in income tax structure in the Fiscal year 2008/2009.

4.5 Role of Corporate Tax in Nepal

Corporate tax, a part of total income tax, is also very important in the developing countries. People of such countries are not capable to pay individual income tax due to being less income earners. In this situation income tax from corporate bodies plays vital role in resource mobilization in the nation, if there are more industries are in operating. The other positive points of corporate tax are that they are easily identifiable and keep accounts in proper way. They do not escape from tax liability and practice tax evasion that is done by individual taxpayers. But unfortunately, Nepal is not able to increase industries in the country. Some government enterprises were privatized. Out of them, most are not in operation and private Ltd. May practice of tax evasion. This makes less realization of corporate tax to the government. As said earlier, there are only limited numbers of corporate bodies in the country. Their economic performance is also low because of these two reasons; the contribution of corporate tax to the government treasury is not much satisfactory in Nepal even though its contribution ratio is high in total income in Nepal.

Table No. 4.5

Contribution of Corporate Tax in Total Income Tax

Rs. In million

Fiscal year	Total Income Tax	Corporate Tax	% on TIT	Growth Rate
2004/2005	9514.8	4838.6	50.85	
2005/2006	10453.6	5327.3	50.96	9.2
2006/2007	10896.4	5395.7	49.51	1.26
2007/2008	15621.4	11515.8	73.7	53.1
2008/2009	17327.9	9767.7	56.36	-17.89

Source: Annual Report of IRD, 2008/2009

Table no. 4.5 shows the contribution of corporate tax on total income tax with its growth rate during fiscal year 2004/2005 to 2008/2009. In fiscal year 2004/2005, corporate tax is Rs 4838.6 million which was 50.85% of total income tax collection. It was raised to Rs 5327.3 million in the fiscal year 2005/2006 and total income tax collection is 50.96%, which growth rate is 9.2. Corporate tax is Rs 5395.7 million in the fiscal year 2006/2007, which was 49.51% of total income tax collection and growth rate is 1.26. In the fiscal year 2007/2008, it collect highest amount among five year and reached to Rs. 11515.8 million, which was 73.7% of total income tax collection and growth rate is 53.1. The reason behind highest growth rate is government forcefully collect tax amount from all companies. Companies were going to profit in that year. So they contribute highest tax to the government revenue. In the fiscal year 2008/2009, it was negatively grown to (17.89%). In that year, Industries were decreasing because of shortage of electricity and economic crises. The world economic crisis also affected Nepal. The political instability was also the cause of declining of corporate tax in that period.

Chart no. 4.4

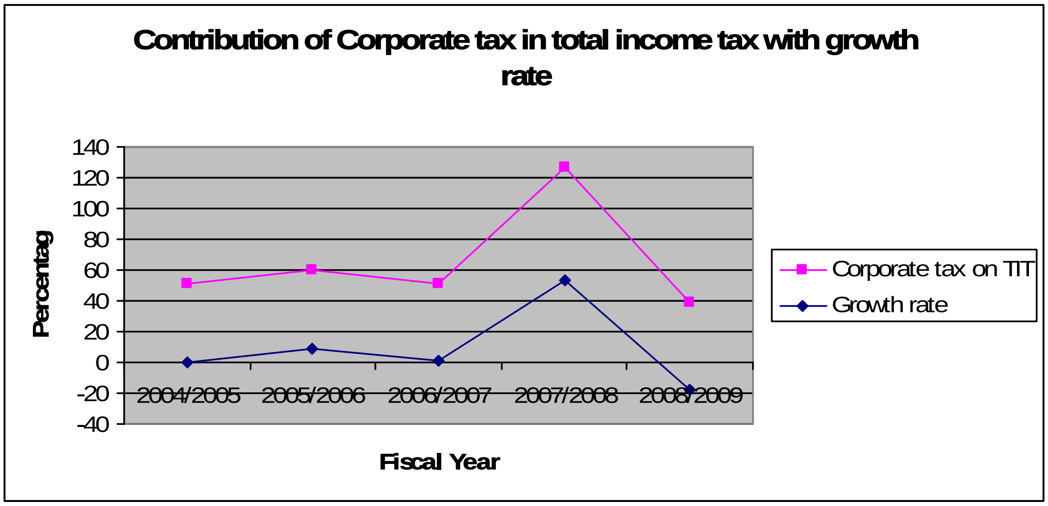


Chart No. 4.4 shows the contribution of corporate tax in total income tax with growth rate. In the fiscal year 2007/2008, corporate tax on total income tax seems to be highest. In that year government collect tax in highest amount. Banks, financial institutions, public Ltd companies also goes to profit and paid more tax. But in the fiscal year 2008/2009, corporate tax on total income tax was negative growth rate. The world economic crises, shortage of electricity are major cause of negative growth rate.

4.6 Corporate Tax on Government Revenue in Nepal

Income Tax as the component of internal resources has been contributing in the government revenue in the increasing trend. But it is also not improved as expected due to various reasons: weakness in income tax administration, lack of tax morality in taxpayers, defects in income tax provisions and illegal business activities are primarily responsible for insufficient realization of income tax revenue in Nepal. Corporate tax, the part of income tax structure, is also very important resources of revenue in developing countries like Nepal. Corporate bodies do not escape from tax liabilities in general. They maintain the books of accounts in accepted formats, audited their accounts and pay taxes in due date. However, in Nepal most of government enterprises manipulate the accounts; their financial performances are also bad. On the other hand, family managed private companies practice tax evasion. These are the drawbacks of corporate tax realization in Nepal.

Table No. 4.6

Corporate Tax on Govt. Revenue

Rs. In million

Fiscal Year	Government revenue	Corporate tax	Corporate Tax as % of Govt. Revenue
2004/2005	70124.9	4838.6	6.90%
2005/2006	72282.1	5327.3	7.37%
2006/2007	87712.1	5395.7	6.15%
2007/2008	107622.7	11515.8	10.70%
2008/2009	143474.4	9767.7	6.80%

Source: 1. Quarterly Economic Bulletin, 2009, NRB

2. Annual Report of IRD, 2008/2009

In the fiscal year 2004/2005, the contribution ratio of corporate tax in Govt. revenue was 6.90%. It was increasing in the year 2005/2006 it was 7.37%. But in the fiscal year 2006/2007 it again decreased to 6.15%. Again, it was increased to 10.70% in the fiscal year 2007/2008. In the fiscal year 2008/2009, it decreased to reach 6.80%. It seems to be fluctuating all over the year.

Chart no. 4.5

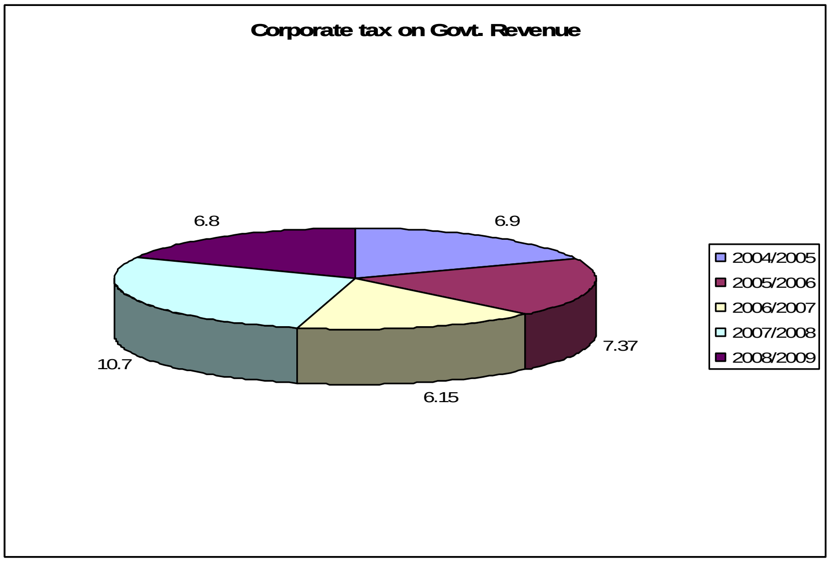


Chart No. 4.5 shows the corporate tax on government revenue in Nepal. In the fiscal year 2007/2008, the share of corporate tax on government revenue was highest. In that year corporate paid the high amount of tax. But in the fiscal year 2008/2009, corporate tax on government revenue was low. In that year corporate paid the low amount of tax cause lack of profit.

4.6.1 Corporate tax collection from Commercial Banks

Commercial banks are public limited companies, which are established under Commercial Bank Act, 1974 and company Act, 1996. Before 1983 A.D, there were only two commercial banks, Nepal bank Ltd and Rastriya Banijya Bank Ltd

in the country. The first joint venture bank named Nepal Arab Bank Ltd was established in the 1984. Then after many joint venture banks were established and now there are 26 commercial banks in operation in the nation. They deal with monetary and credit activities, accept deposits and lend loan, create credit and exchange the foreign currencies and provide many other services. By performing these activities, they make profit. Since they are profit oriented organization, they pay taxes from profit according to income tax act.

The position from the 5th to 10th largest taxpayers of the country was occupied by the commercial banks. By contributing Rs 470.70 million in the state treasury, the countries first private commercial bank NABIL bank, jumped up a position to the fifth spot. Standard Chartered Bank, which paid Rs 443.12 million in tax in the fiscal year 2008/2009, to the sixth spot. Nepal Investment Bank, with the contributing of Rs 389.58 million in state to become the seventh largest tax payer, whereas Himalayan Bank, state owned Agriculture Development Bank and Everest Bank Ltd secured the 8th, 9th, and 10th spot.

Table No. 4.6.1

Corporate Tax Collection from Commercial Banks

Rs in million

S.N	Fiscal year	2004/05	2005/06	2006/07	2007/08	2008/09
1	Rastriya Banijya Bank Ltd	0	0	0	0	0
2	Nabil Bank Ltd	239.15	262.56	314.53	340.62	470.70
3	Nepal Investment Bank Ltd	101.53	154.38	221.98	323.22	389.58
4	Standard Chartered Bank Ltd	258.94	274.50	315.43	381.49	443.12
5	Himalayan Bank Ltd	214.26	214.94	225.58	309.15	340.77
6	Nepal SBI Bank Ltd	67.8	66.12	86.7	105.74	133.12
7	Everest Bank Ltd	81.91	106.75	144.36	216.91	276.86
8	Bank of Kathmandu Ltd	64.76	93.23	115.42	162.53	200.3
9	Nepal Credit and Commercial Bank Ltd	0	0	40.04	75.33	102.86
10	Nepal Industrial & Commercial Bank Ltd	50.97	40.8	72.68	113.98	137.91
	Total	1079.32	1213.28	1536.72	2028.97	2495.22

Source: Annual Reports of relevant Commercial Banks, (2004/2005 to 2008/2009)

The table no 4.6.1 is the list of corporate tax paid by various Commercial Banks for the last five years (i.e. from fiscal years 2004/2005 to 2008/2009). According to this table, Standard chartered Bank Ltd., NABIL Bank Ltd, and Himalayan Bank Ltd are high corporate tax paying commercial banks. Most of the commercial banks are paying tax in increasing order. In the year 2004/2005 about Rs 1079.32 million taxes was collected from Commercial Banks. In that year, Standard Chartered Bank paid highest tax in income i.e. Rs 258.94 million and NABIL Bank paid second highest tax in income i.e. Rs 239.15 million. In the same year Nepal Industrial and Commercial Bank had contributed very low share i.e. Rs 50.97 million. Nepal Credit and Commercial Bank and Rastriya Banijya Bank Ltd, hasn't paid tax because lack of profit.

In the fiscal year 2005/2006, total tax collection from Commercial Bank was Rs 1213.28 million. In that year, Standard Chartered bank has to pay highest tax i.e. Rs 274.50 million. NABIL Bank paid second highest tax i.e. Rs 262.56 million.

Total tax collection from Commercial banks was Rs 1536.72 million in the fiscal year 2006/2007. Standard Chartered Bank paid Rs 315.43 million corporate tax. This is first position among 10 commercial banks. The second position is taken by NABIL Bank paid tax Rs 314.53 million, which is near by Standard Chartered Bank.

In the fiscal year 2007/2008, total corporate tax paid by Commercial banks was Rs 2028.97 million. Highest amount of corporate tax paid by Standard Chartered bank which was Rs 381.49 million.NABIL Bank has to pay second highest amount of corporate tax i.e. Rs 340.62 million and Nepal Investment Bank has to pay Rs 323.20 million.

In the fiscal year 2008/2009, total corporate tax paid by commercial banks was Rs 2495.22 million. Nabil Bank paid highest amount of tax of Rs 470.70 million and Standard Chartered Bank paid second highest amount of Rs 443.12 million.

Chart No. 4.6

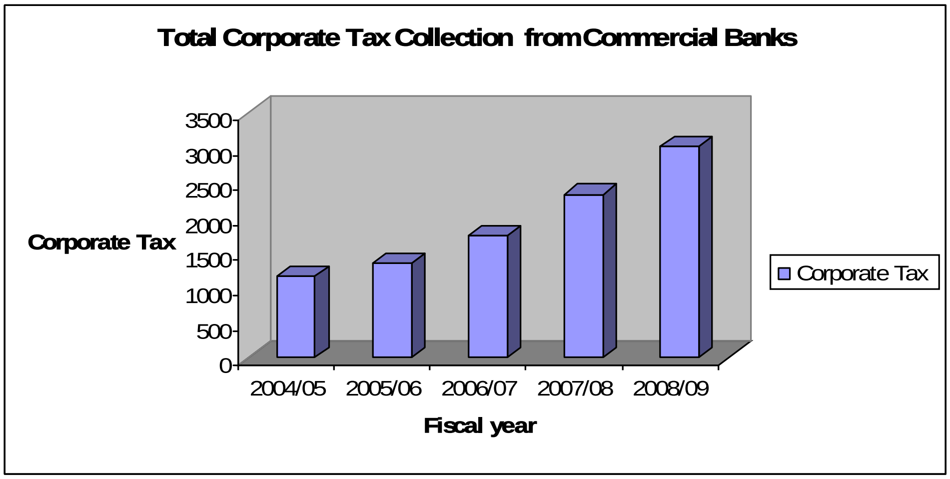


Chart No. 4.6 shows that total corporate tax collection from commercial banks are in increasing order. The cause behind this is increasing number of new commercial banks as well as increasing interest rate in loan. Now a day, Commercial banks are using their fund in non-productive sectors, they have paid high interest rate as a result banks are in profit and contribute more tax to government revenue.

Table No. 4.6.2

Average Corporate Tax Collection from Commercial Banks with Standard Deviation and Coefficient of Variation

Rs in million

S.N	Fiscal Years	Mean Payment of Corporate tax	Standard deviation Of payment	Coefficient of variation
1	Rastriya Banijya Bank Ltd	0	0	0
2	Nabil Bank Ltd	325.51	81.05	24.9
3	Nepal Investment Bank Ltd	238.138	105.93	44.48
4	Standard Chartered Bank Ltd	334.696	68.81	20.25
5	Himalayan Bank Ltd	260.94	53.37	20.45
6	Nepal SBI Bank Ltd	91.896	25.15	27.36
7	Everest Bank Ltd	145.358	48.2	33.15
8	Bank of Kathmandu Ltd	127.248	48.54	38.15
9	Nepal Credit and Commercial Bank Ltd	43.646	30.07	68.89
10	Nepal Industrial & Commercial Bank Ltd	83.268	67.54	81.11

Source: Appendix I of this report

Table 4.6.2 shows the average corporate tax payments made by Commercial banks with standard deviation and coefficient of variation of tax payment. As shown by this table, Standard Chartered Bank Ltd, NABIL Bank Ltd, Himalayan Bank Ltd is the top three corporate taxpayers in commercial banking. The coefficient of variation demonstrates the variation of paying of corporate tax from the central tendency i.e. mean payment. As this table, Standard Chartered Bank has less C.V i.e. 20.25 percentage. It means that its corporate tax paying was very close to the average payment than other banks. Nepal Industrial and Commercial Bank has highest C.V i.e.81.11 percent. That is why it has high volatile in income tax paying. In conclusion, the corporate tax collection from commercial banks is also in the increasing order.

4.7 Contribution of Corporate Tax Collection from Commercial Banks to Total Tax Revenue and Revenue of Government.

Commercial banks are the major tax payers to the national coffer. The position from the 5th to 10th largest taxpayers of the country was occupied by the commercial banks. They contributed Rs 470.70 million in the state treasury.

Table No. 4.7

Contribution Ratio of Income Tax paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue

Rs in million

Fiscal year	Total tax Revenue	Total Revenue of Govt	Corporate tax Collection from C.B	% on Total Revenue	% on Total Tax Revenue
2004/2005	54107	70124.9	1079.32	1.53	1.99
2005/2006	57427	72282.1	1213.28	1.67	2.11
2006/2007	71168	87712.1	1536.72	1.75	2.15
2007/2008	85147.1	107622.7	2028.97	1.88	2.38
2008/2009	117051.8	143474.4	2495.22	1.73	2.13

Source: 1. Quarterly Economic Bulletin, 2009, NRB

2. Annual Report of Commercial Banks (2004/2005 to 2008/2009)

Table 4.7 shows the contribution ratio of corporate tax collected from commercial banks in total tax revenue and in total government revenue for the last five years. According to the table, the contribution of tax collected from commercial banks was between 1.99% to 2.38% and 1.53% to 1.88% on total tax revenue and total revenue respectively. The realization of tax from Commercial banks in the fiscal year 2007/2008 was about Rs 2028.97 million, which contributed 2.38% in the total revenue. In the same year, its contribution on total tax revenue was 1.88%, which was also highest than in others years.

From the same table it can be said that the contribution ratio of tax payment made by commercial banks has been increasing. It was 1.53% in the total revenue and 1.99% in the total tax revenue in the beginning (i.e. fiscal year 2004/2005) and continuously increase upto 1.88% and 2.38% in the same base in fiscal year 2007/2008. The reason behind the increasing contribution of banking sector to tax were increasing loans, advances and overdraft of commercial banks, more profits and branch extension in the Country.

4.8 Ratio of Income Tax Collection from Commercial Banks in Corporate Tax and Total Income Tax

This part of analysis also shows the contribution ratio of the corporate tax collected from commercial banks in total corporate tax and in total income tax realized.

Table No. 4.8

Contribution of Income Tax Collection from Commercial Banks to Total Income Tax and Corporate Tax

Rs in million

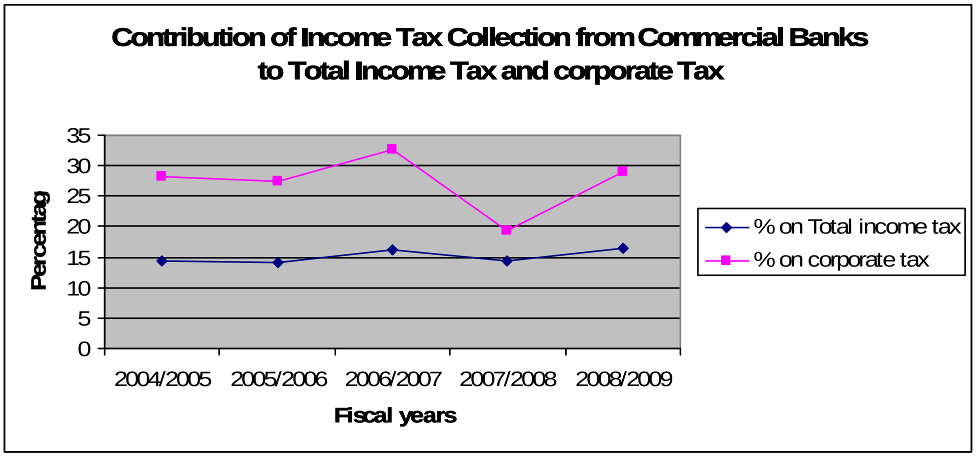
Fiscal year	Total income tax	Corporate Tax	Corporate tax collection from C.B	% on Total income tax	% on corporate tax
2004/2005	9514.8	4838.6	1079.32	11.34	22.3
2005/2006	10453.6	5327.3	1213.28	11.6	22.77
2006/2007	10896.4	5395.7	1536.72	14.10	28.48
2007/2008	15621.4	11515.8	2028.97	12.98	17.6
2008/2009	17327.9	9767.7	2495.22	14.4	25.54

Source: 1. Annual Report of IRD, 2008/2009

2. Annual Report of Commercial Banks (2004/2005 to 2008/2009)

According to this table, the contribution of corporate tax collected from commercial banks was 11.34% and 22.3% in the fiscal year 2004/2005 in total income tax and total corporate tax realized by the government respectively. In that year Rs 1079.32 million was collected as corporate tax from commercial banks. In fiscal year 2005/2006, total income tax was slightly increased to 11.6% and corporate tax also increased to 22.77%. Then, the corporate tax from commercial banks in total income tax increased to 14.10% and corporate tax was 28.48% in the fiscal year 2006/2007. In the fiscal year 2007/2008, ratio of income tax was 12.98% and corporate tax was 17.6%. Total income was increased to i.e. 14.4% and total corporate tax was also increased to 25.54% in the fiscal year 2008/2009

Chart No. 4.7



Thus, as shown by that table, the contribution ratio of corporate tax from commercial banks was fluctuating in order among 5 year. The corporate tax collection from commercial banks was highest in the year 2008/2009 i.e. Rs 2495.22 million out of Rs 9767.7 million total corporate tax collected. In that year, the share of corporate tax collection from commercial banks to total income tax and corporate tax was also highest i.e. 14.4% and 25.54% respectively.

4.9 Relationship of Corporate Tax and Tax Collected from Commercial Banks with Gross Domestic Product

Gross Domestic Product (GDP) means the value of goods and service produced within the nation. If it is represented in the incomes of the factors of production, it is known as GDP at factor cost whereas it is known as GDP at market price, if goods and service are charged at ruling prices. Prices include all taxes on expenditure subsidies being regarded as negative taxes. For the analysis, gross domestic product at current market prices is taken as base.

Table No. 4.9

Relationship of Corporate tax and tax collected from Commercial Banks with GDP

Rs in million

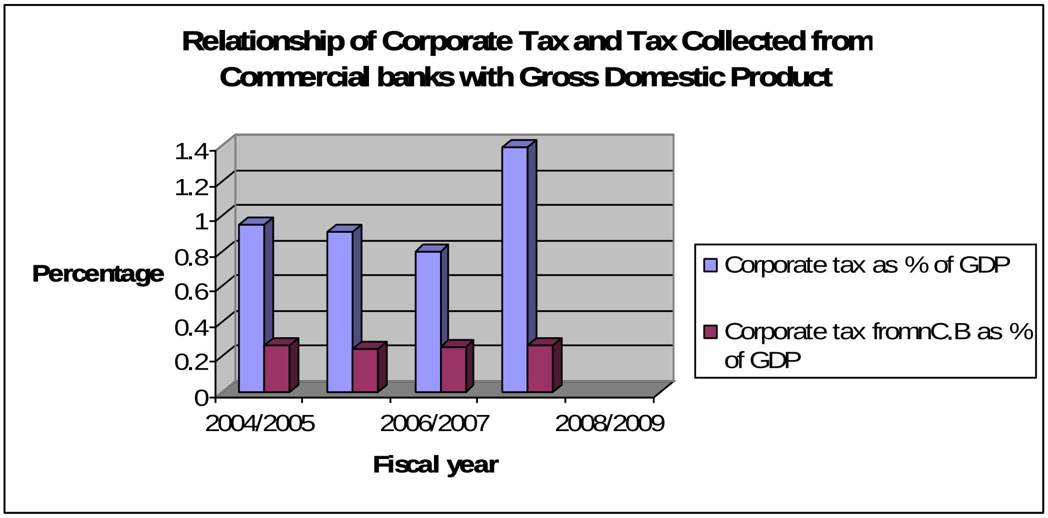
Fiscals years	Gross Domestic Product	Corporate Tax	Corporate tax collection from C.B	Corporate tax as % of GDP	Corporate Tax from C.B as % of GDP
2004/2005	504101	4838.6	1079.32	0.959	0.21
2005/2006	582950	5327.3	1213.28	0.913	0.208
2006/2007	670588	5395.7	1536.72	0.804	0.229
2007/2008	820814	11515.8	2028.97	1.4	0.247
2008/2009	NA	9767.7	2495.22	NA	NA

Source: 1. Annual Report of IRD, 2007/2008

2. Annual Reports of Commercial Banks, 2004/2005 to 2008/2009**.**

As shown by the table no 4.9, the contribution ratio of these two taxes has been very low in GDP, even though both have been increasing. In the fiscal year 2004/2005, the GDP was Rs 504101 million. The share of corporate tax and corporate tax collection from commercial banks to the GDP were 0.959% and 0.21% respectively in the same year. The corporate tax was decreased by o.045% in the fiscal year 2005/2006 and reached to .914%. Whereas corporate tax collection from Commercial banks shows negative trend that means it went to 0.208%. In the fiscal year 2006/2007, again corporate tax to GDP was decreased to .804% and corporate tax collection from commercial banks to GDP was .229%. The ratio of corporate tax and tax collected from commercial banks was increased in the fiscal year 2007/2008. The ratio of corporate tax to GDP was 1.4% and tax collection from commercial banks to GDP was .247%.

Chart no. 4.8



As this chart, it can be viewed that share of corporate tax as well as tax from commercial banks on GDP was very low. Their increment was also very minimal.

In the fiscal years 2007/2008, the share of corporate tax on GDP was highest i.e.1.4%. In that year government was collects more amount of tax from corporate i.e. Rs 11515.8 million. The same year, the share of corporate tax from commercial banks on GDP was 0.247%, which was also highest.

4.10 Empirical Analysis

4.10.1 Introduction:

An empirical analysis has been conducted in order to find various aspect of income tax from the experience of real life situation. The tool used for this purpose is an opinion questionnaire. This was distributed to 20 persons representing bankers (see the format of questionnaire in Appendix II). There are three types of questions were given for them to answer. The first types of questions were asked for a Yes/No response. The second types of questions were asked for ranking of choices according to number of alternatives where first choice was the most important and last choice was the least important. The third types of questions were of choosing the alternative thought best by the respondent. These three types of questionnaires do not follow each other but rather compliment each other in order to get the desired result.

4.10.2 Income Tax as a suitable means for government revenue:

In order to know the respondents opinion about the suitability of income tax to raise government revenue, the question asked was, “In your opinion, is the income tax a suitable means for raising government revenue? The responses received from respondents are tabulated below in table no. 4.10.

Table No.4.10

Suitability of income tax to raise government revenue

No.	Question No.1	No of responses	Percentage (%)
A	Yes	20	100
B	No	0	0
Total		20	100

Source: Opinion Survey

From the response tabulated above, it is seen that all the respondents approve the income tax as a suitable means for raising the government revenue. Therefore, it can be concluded that there is no doubt in the suitability of income tax as a means for raising government revenue.

4.10.3 Reasonability of corporate tax rate

Corporate tax rate is different for different companies. It ranges from 20% for special industries to 30% for industries such as banking and insurance business. The question asked regarding the reasonability of corporate tax rate in context of Nepal was, “Is the corporate tax rate reasonable?” The responses received from respondents are tabulated below.

Table No. 4.11

Reasonability of corporate tax rate

No	Question No.2	No of responses	Percentage
A	Yes	5	25
B	No	15	75
			100

Source: Opinion Survey

The result of this question was 25 percent of respondents were in favor of current corporate tax rate and 75 percent of respondents were against the reasonability of current tax rate. Therefore, it can be concluded that tax rate isn’t reasonable.

4.10.4 Government provide any facility to banks for generate more income tax

In order to know the respondents view about any facility do the government provides to bankers for generating more income tax, the question asked was, “Does the government provide any facility to bankers for generating more income tax?” Responses received from respondents are tabulated below.

Table No. 4.12
Government role in helping to generate more income tax

No.	Question No. 3	No of responses	Percentage
A.	Yes	4	20
B.	No	16	80
Total		20	100

Source: Opinion survey

It can be clearly seen that 80 percent of respondents approved that government isn't provide any kind of facility for this sector which will enable government to generate higher income tax. However, 20 percent respondents said that government is providing adequate facility for generating more income tax.
Further, in support of above question additional question asked was "If not, what facility you aspect from government for generating more income tax?" The respondents ranked the options given to them as shown in the table below.

Table No. 4.13
Government facility for generating more income tax

No.	Question NO. 3	No of Responses	Rank
A.	Decrease Cash Reserve Ratio	18	I
B.	Decrease Statuary Liquidity Ratio	15	II
C.	Extend the tax payable time beyond the existing time limit without fine	13	III

Source: Opinion Survey

The respondents ranked choice A as the most important facility that government can provide for increasing tax revenue.18 among the 20 respondents ranked option 1 as the most important way of government help to increased income tax. Similarly, 15 respondents ranked option 2 as the second important tools that can be employed by the government facilitating the increasing income tax. Lastly, 13 of the 20 respondents were in favor of extending the taxable

4.10.5 Comment about fine and penalties imposed by Inland Revenue Department

Inland Revenue Department imposed fine and penalties in corporate tax. To know the comment about fine and penalties imposed by Inland Revenue Department, the question asked was," Do you want to comment about fine and penalties imposed by Inland Revenue Department?" The responses received from the various respondents are tabulated below.

Table 4.14

Fine and penalties imposed by government revenue

No.	Question No.4	No of Responses	Percentage
A.	Yes	14	70
B.	No	6	30
Total		20	100

Source: Opinion Survey

The majority of respondents i.e. 70 percent have approved that they want to comment about fine and penalties imposed by Inland Revenue Department. However, 30 percent of the respondents were against the fine and penalties imposed by Inland Revenue Department.

In order to know their comment about fine and penalties imposed by Inland Revenue Department, another question asked was, If yes, "point them out". The respondents said that, it is also seen that most of commercial banks have disputes the claims of additional tax raised by tax authorities and have challenged the said orders by filling appeals with the Revenue Tribunal. The causes of disputes are basically vague provisions of tax law, use of discretionary power in tax assessment by the tax authorities and order of tax assessment and contradiction between provision of tax law and related finance act. These causes force to make appeals with Revenue Tribunal. However, the settlement of so filed appeals also takes long time because these files remain pending with tax authority for a long time. This is absolutely undue delay that makes high compliance cost to the banks being changes in the rates of fines and penalties they have to pay in case they defeat.

4.10.6 Income tax system of Nepal is efficient

In order to know the efficiency of income tax system of Nepal, the question asked was, "Whether the income tax system of Nepal is efficient?" The responses received from the various respondents are tabulated below.

Table no 4.15
Efficiency of income tax system of Nepal

No.	Question No.5	No. of responses	Percentage
A	Yes	6	30
B	No	14	70
Total		20	100

Source: Opinion Survey

As it is seen that the majority of respondents i.e. 70 percent have approved that the income tax system of Nepal is not efficient. But, 30 percent respondents think that the income tax system of Nepal is efficient. Hence it can be concluded that the income tax system of Nepal is not efficient.
Further, to know the reason of inefficiency of income tax system, another question asked was," If not, what are the major problems of Income tax system of Nepal?" The responses received from respondents are tabulated below.

Table no: 4.16
Major problems in efficiency of income tax system

No.	Question No. 6	No of responses	Rank
A	Complexity in income tax act	19	II
B	Less consciousness of tax payers	20	I
C	Lack of training facility to the employee	14	III
D	Increasing habits on tax evasion of tax payers	13	IV
E	Lack of experts in income tax management	8	V
F	Misuse of power by tax administration	5	VI

Source: Opinion Survey

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

1. Complexity in income tax act
2. Less consciousness of tax payers
3. Lack of training facility to the employee
4. Increasing habits on tax evasion of tax payers
5. Lack of experts in income tax management
6. Misuse of power by tax administration

It can be concluded from the above results that in the opinion of respondents, the income tax system of Nepal is not efficient due to less consciousness of taxpayer, complexity in income tax act, lack of training facility to the employee of tax administration and increasing habits of tax evasion.

4.10.7 Satisfaction with the tax authority's behavior

Tax authorities' behaviour also plays a major role in tax payment. In this context, attitude and behaviour of tax authorities to the tax payers can create problems to the bankers. To know the view of respondents about the satisfaction with the tax authority's behaviour, the question asked was, "Are you satisfied with the tax authority's behaviour?" The responses received from respondents are tabulated below.

Table no 4.17
Satisfaction with the tax authorities' behaviour

No	Question No 7	No of respondents	Percentage
A	Yes	6	30
B	No	14	70
		20	100

Source: Opinion Survey

From the respondents answer it can be concluded that most of the bankers are not satisfied with the tax authority's behaviour. Even though, Tax authorities are civil servants. 70 percent of the respondents are not happy with tax authorities' behaviour. In order to know the tax authorities behaviour supplementary question asked was, "if not, what types of behaviour do you think as bad? The

Responses received from respondents were tabulated below.

Table no 4.18

Tax authorities' behaviour

No	Question No 7	No of Respondents	percentage
A	Unhelpful	7	35
B	Corrupt	4	20
C	Red Tapping	5	25
D	Rude	4	20
Total		20	100

Source: Opinion Survey

From the respondents response it can be concluded that most of the respondents do not like tax authority's unhelpful behaviour. Tax authorities create complication in the work even though it is easy. According to the responses of bankers, tax authorities show different behaviours than the discretionary rights given to them by tax laws.

4.10.8 Simplicity of self assessment procedure

In self assessment, a tax payer himself assesses his tax liability. Income tax act 2058 focuses on the self assessment system. Under this act, every assessment will be treated as self assessment. In Nepal, self assessment procedure is practice. In order to know the simplicity of self assessment procedure, the question asked was," Do you think current (self assessment) procedure is simple? The responses of respondents are tabulated below.

Table no 4.19

Simplicity of self assessment procedure

No	Question No 8	No of respondents	percentage
A	Yes	6	30
B	No	14	70
		20	100

Source: Opinion Survey

From this table, it can be concluded that self assessment procedure is not simple.
In order to know the problem existing in self assessment procedure, another question was asked," If not, what are the problem existing? They do not accept easily self assessed

returns; they do not behave same bahaviour to all taxpayers. They assess the returns again and take long time in completing assessment rather than extension of four years to complete tax assessment provided by tax law. This affects to the banks negatively. They need making provision for additional tax liability until the completion of tax assessment. Self assessment system is also lengthy process and demands many documents.

4.10.9 Tax paying habit of Commercial Banks

In order to know the respondents view about tax paying habit of Commercial banks, the question asked was," what is the tax paying habit of Commercial banks?" Responses received from respondents are tabulated below.

Table No. 4.20
Tax paying habit of Commercial banks

No	Question No 9	No of respondents	Percentage
A	Positive	6	30
B	Negative	2	10
C	Moderate	12	60
	Highly positive	0	
Total		20	

Source: Opinion Survey

It is clear from the above answers that most of the respondents i.e. 60 percent of them feel that tax paying habit of Commercial banks are moderate. Similarly, 30 percent of respondents think that there is positive tax paying habit of Commercial banks. But 10 percent of the respondents think that there is negative tax paying habit of Commercial banks. However, majority of respondents have approved that the tax paying habit of Commercial banks are moderate.

4.10.10. Important factors for effectiveness of income tax in Nepal

In order to know the view about the important factors responsible for effectiveness of income tax system in Nepal, question asked was," what are the most important factors for effectiveness of income tax in Nepal? The respondents were requested to rank their preference. The responses received from respondents are tabulated below.

Table No 4.21
The important factors for effectiveness of income tax in Nepal.

No	Important Factors(Question no 10)	No of Responses	Rank
A	Honest Tax payer	15	I
B	Honest tax officer	13	II
C	Clear act, rules and regulation	10	IV
D	Effective income tax administration	12	III

Source: Opinion Survey

The most important factors for effectiveness of income tax in Nepal were ranked in order of preference of the respondents are as follows.

1. Honest taxpayer
2. Honest tax officer
3. Effective income tax administration
4. Clear acts, rules and regulations.

Besides the above factors the respondents stated the following important factors for effectiveness of income tax.

1. Taxpayers shouldn't evase the tax.
2. Effective taxpayer education.

From the above opinion of respondents, it can be concluded that the honest taxpayer, honest tax officer, effective income tax administration, clear acts, rules and regulation and effective taxpayer education are the important factors for effectiveness of income tax in Nepal.

Attitude towards the effectiveness of new "Income Tax Act 2058"then previous "Income Tax Act 2031":

In order to know whether the new "income tax act 2058" is more effective in comparison to previous "Income Tax Act 2031" or not, the question asked was "Is the new "Income Tax Act 2058" of Nepal effective to previous "Income Tax Act 2031?" The responses received from the respondents are tabulated below.

Table No. 4.11

Effectiveness of new "Income Tax Act 2058" in comparison to previous "Income Tax Act 2031"

No	Question no 11	No of responses	Percentage
A	Yes	16	80
B	No	4	20
Total		20	100

Source: Opinion survey

From the respondents views it can be concluded that new "Income Tax Act 2058" is effective in comparison to previous "Income Tax Act 2031". 80 percent respondents are in favor of "Income Tax Act 2058" and 20 percent respondents are in favor of "Income Tax Act 2031".

In order to know the reasons of effectiveness of "income Tax Act 2058" in comparison to previous "Income Tax Act 2031", question asked was " If yes, what are the reasons?" The respondents were requested to rank in order of their choice, which is tabulated below.

Table No. 4.22

Reasons of the effectiveness of New "Income Tax Act 2058"

No	Question no 12	No of responses	Rank
A	Change in various tax related concessions, rebates and exemptions.	16	I
B	Taxing Capital gain and dividend.	7	V
C	Specification of stock valuation method.	10	IV
D	Provision of setting off and carry forwarding business losses	12	III
E	Provision of all income tax related matters within one act	13	II
F	Simplification of depreciation related provision	5	VI

Source: Opinion Survey

The reasons of effectiveness of new “Income Tax Act 2058” ranked in order of preference of respondents are as follows.

1. Change in various tax related concessions, rebates and exemptions.
2. Provision of all income tax related matters within one act.
3. Provision of setting off and carry forwarding business losses.
4. Specification of stock valuation method.
5. Taxing capital gain and dividend.
6. Simplification of depreciation related provision.

Thus it can be concluded that “Income Tax Act 2058” is more effective than previous “Income Tax Act 2031”.

4.11 Major Findings of the Study

On the basis of data presentation and analysis, some important findings of the study are presented in summary as follows:

1. Nepal Government has divided tax revenue in two classes one is direct and the other is indirect. Direct tax includes income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax, and others. Similarly, indirect tax includes Sale tax/ VAT, entertainment tax, customs, excise duty. Further, the share of tax revenue has always been greater than the share of non-tax revenue. In fiscal year 2008/2009 it was increased to 81.58%, which is highest ratio among 5 years.

2. In the fiscal year 2008/2009, the corporate tax on total income tax with its growth rate negatively grown to (17.89%). In that year, Industries were decreasing because of shortage of electricity and economic crises. The world economic crisis also affected Nepal. The political instability was also the cause of declining of corporate tax in that period.

3. Banks are important pillars of economy of a country. The position from the 5^{th} to 10^{th} largest taxpayers of the country was occupied by the commercial banks. Banks are profit oriented organization and they contribute tax in government treasury. In the fiscal year 2004/2005, corporate tax contributed by commercial banks was Rs. 1079.32 million in the government treasury. In the fiscal year 2005/2006, commercial banks paid corporate tax Rs 1213.28 million. It was increasing in the fiscal year 2006/2007, 2007/2008 and

2008/2009 by Rs 1536.72 million, Rs 2028.97 million, and Rs 2495.22 million respectively. Further, Standard chartered Bank Ltd., NABIL Bank Ltd, and Himalayan Bank Ltd are high corporate tax paying commercial banks. Similarly, Standard Chartered Bank has less C.V i.e. 20.25 percentage. It means that its corporate tax paying was very close to the average payment than others.

4. The corporate tax collection from commercial banks is also in the increasing order. The reason behind the increasing contribution of banking sector to tax were increasing loans, advances and overdraft of commercial banks, more profits and branch extension in the Country.

5. In the fiscal year 2008/2009, the corporate tax on total income tax with its growth rate negatively grown to (17.89%). In that year, Industries were decreasing because of shortage of electricity and economic crises. The world economic crisis also affected Nepal. The political instability was also the cause of declining of corporate tax in that period.

6. Bankers view regarding income tax structure of Commercial banks and the problems faced by them were as follows:

I) Income tax is a suitable means for raising government revenue.

II) The corporate tax rate for commercial banks isn't reasonable. Most of them were in favor of reducing tax rate imposed by government for commercial banks.

III) Government isn't providing any kind of facility for banking sectors which can enable government to generate higher income tax. The government facilities for generating more income tax are: Decrease cash reserve ratio, decrease statuary liquidity ratio, extend the tax payable time beyond the existing time limit without fine.

IV) The majority of respondents have approved that they want to comment about fine and penalties imposed by Inland Revenue Department. It is also seen that most of commercial banks have disputes the claims of additional tax raised by tax authorities and have challenged the said orders by filling appeals with the Revenue Tribunal.

V) The income tax system of Nepal is not efficient due to less consciousness of taxpayer, complexity in income tax act, lack of training facility to the employee of tax administration and increasing habits of tax evasion.

VI) Even though, Tax authorities are civil servants. Most of the respondents are not happy with tax authorities' behaviour. Most of the respondents do not like tax authority's unhelpful behaviour.

VII) The self assessment procedure is not simple. Self assessment system is also lengthy process and demands many documents.

VIII) Most of the respondents feel that tax paying habit of Commercial banks is moderate.

IX) The honest taxpayer, honest tax officer, effective income tax administration, clear acts, rules and regulation and effective taxpayer education are the important factors for effectiveness of income tax in Nepal.

X) Most of the respondents are in favor of New "Income Tax Act 2058" than previous "Income Tax Act 2031". The reason for effectiveness of new "Income Tax Act 2058" are as follows: Change in various tax related concessions, rebates and exemptions, Provision of all income tax related matters within one act, provision of setting off and carry forwarding business losses, specification of stock valuation method, taxing capital gain and dividend, simplification of depreciation related provision..

CHAPTER- 5
SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

Nepal Government has separated tax revenue in two types one is direct and the other is indirect. Direct tax includes income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax, and others. Similarly, indirect tax includes Sale tax/ VAT, entertainment tax, customs, excise duty. Income tax is one of tax source that is potential and justifiable to increase. Education of taxation and morality in tax paying of taxpayers also help in maximizing realization of income tax. Corporate bodies also play important role in revenue collection to the Government. Developing countries like Nepal also hope that corporate bodies are the taxpayers from whom considerable amount can be collected. Analytical studies regarding financial performance and tax paying trends of different corporate sectors should be undertaken time to time to recognize the probable increment of collectible tax from these sectors and tax problems that causes low tax collection so that correction of the problems could be done in time. This study had been undertaken considering these aspects.

A formal income tax act was introduced in fiscal year 1959/60 for the first time in Nepal as “Business Profit and Remuneration Tax Act, 1960” which was narrow and vague. It had only 22 sections. The corporate tax was also started from the enactment of this act and it was not differentiated from individual income tax in respect of tax rate structure and exemption limits given. This act was replaced by Income Tax Act, 1962 and it was continued for twelve years with once amendment in 1972. income Tax Act, 1974 was introduced in the country third time due to insufficiency and vague provisions in the previous act and as per demanded by time. This act was refined from of previous act. This act was continued for long period up to fiscal year 2001/02 with eight times amendments as required by changing economic environment of the country.

The fourth time, Income Tax Act 2002(2058) was introduced and it has implemented from 2058/12/19. This new Income Tax Act, 2002 has included all the sources of incomes including capital gains.

Corporate tax is imposed in profit and income made by corporate bodies is also important source of national revenue. Government enterprises, public limited companies and private limited companies are the corporate bodies, which pay corporate tax to the government. Limited numbers of corporate bodies and their poor performance are the main cause of less corporate tax collection in Nepal.

Commercial Banks are also corporate taxpayers to the government. These are the entities, which provide financial services to the government, industry, trade and business and public. They make profits and pay corporate tax. The historical development of commercial banks in Nepal was not so far. Before 1984, there were only two commercial banks. Now there are twenty six commercial banks operating. Most of banks are suffering from losses and some banks have been earning less profit. Standard Chartered bank, NABIL bank and Himalayan bank have been paying considerable amount as corporate tax. Standard Chartered Bank has less C.V i.e. 20.25 percentage. It means that its corporate tax paying was very close to the average payment than others. The corporate tax collection from commercial banks is also in the increasing order. The reason behind the increasing contribution of banking sector to tax were increasing loans, advances and overdraft of commercial banks, more profits and branch extension in the Country. The contribution ratio of the share of corporate tax and corporate tax collection from Commercial Banks has been very low in GDP even though both have been increasing.

Similarly, income tax is a suitable means for raising government revenue. However, bankers feel that corporate tax rate for commercial banks aren’t reasonable. Most of them were in favor of reducing tax rate imposed by government for commercial banks. Further, Government isn’t providing any kind of facility for banking sectors which can enable government to generate higher income tax. The government facilities for generating more income tax can be: decrease cash reserve ratio, decrease statuary liquidity ratio, extend the tax payable time beyond the existing time limit without fine.

Moreover, the majority of respondents have approved that they want to comment about fine and penalties imposed by Inland Revenue Department. It is also seen that most of commercial banks have disputed the claims of additional tax raised by tax authorities and have challenged the orders of Inland Revenue Department by filling appeals with the Revenue Tribunal. Bankers feel that income tax system of Nepal is not efficient due to less consciousness of taxpayer, complexity in income tax act, lack of training facility to the employee of tax administration and increasing habits of tax evasion.

Even though, Tax authorities are civil servants. Most of the respondents are not happy with tax authorities' behaviour. Most of the respondents do not like tax authority's unhelpful behaviour. Further, the self assessment procedure is not simple. Self assessment system is also lengthy process and demands many documents. Besides, most of the respondents feel that tax paying habit of Commercial banks is moderate. The honest taxpayer, honest tax officer, effective income tax administration, clear acts, rules and regulation and effective taxpayer education are the important factors for effectiveness of income tax in Nepal. Lastly, Most of the respondents are in favor of New "Income Tax Act 2058" than previous "Income Tax Act 2031". The reason for effectiveness of new "Income Tax Act 2058" are as follows: Change in various tax related concessions, rebates and exemptions, Provision of all income tax related matters within one act, provision of setting off and carry forwarding business losses, specification of stock valuation method, taxing capital gain and dividend, specification of stock valuation method.

5.2 Conclusion

The developing as well as developed countries in the world have increasingly focused their attention towards reforming the tax system by standardizing and improving the poorly designed tax structure in order to mobilize high volume of resources for the development purposes and make the economy healthy, efficient and self sufficient to a larger extent. In this regard, tax is an important source of government revenue in Nepal. Corporate bodies also play important role in revenue collection to the Government. Developing countries like Nepal also hope that corporate bodies are the taxpayers from whom considerable amount can be collected.

Internal revenue mobilization play vital role in the poor and developing country like ours to develop socio and economic environment of nation. Income tax is a best and promising instrument of resource mobilization in Nepal. The income tax is increasing order from beginning of analysis (except fiscal year 2007/2008) and it seems to be progressive in future. This is denoted by higher growth rate of this revenue item.

Corporate tax is imposed in profit and income made by corporate bodies is also important source of national revenue. Government enterprises, public limited companies and private limited companies are the corporate bodies, which pay corporate tax to the government. Limited numbers of corporate bodies and their poor performance are the main cause of less corporate tax collection in Nepal. Similarly, income tax is a suitable means for raising government revenue. However, bankers feel that corporate tax rate for commercial banks aren’t reasonable. Most of them were in favor of reducing tax rate imposed by government for commercial banks. Further, Government isn’t providing any kind of facility for banking sectors which can enable government to generate higher income tax. The government facilities for generating more income tax can be: decrease cash reserve ratio, decrease statuary liquidity ratio, extend the tax payable time beyond the existing time limit without fine.

The honest tax payer, honest tax officer, effective income tax administration, clear acs, rules and regulation and effective tax payer education are the important factors for effectiveness of income tax in Nepal.

5.3 Recommendations

On the basis of research, the following corrective measures are recommended for the better administration and implementation of corporate tax collection from commercial banks.

1. Tax collected from various sectors is the backbone of government revenue. Tax revenue is always been greater than non-tax revenue. But its increment isn't sufficient. So, tax revenue should be increased by introduction of tax structure reforms, proper administration and lowering evasion of tax by strengthening the direct tax laws.

2. Industries help to generate more corporate tax to government revenue. The government should facilitate industries by providing electricity, reducing banda etc. So, industry help to reduce negative growth rate of corporate tax on total income tax with its growth rate.

3. Banking sector is one of the major sources of tax revenue to the government. Therefore, government should play vital role in development and promotion of this sectors. The concrete measures government can take for the growth of this sector can be:
Banking sector is levied at the rate of 30 percentage tax whereas general industrial sectors are levied 25% and special industries are imposed 20% only. Banking sector is also very important sector as other industries because banks are providing various financial services to industrials and other sectors for the smooth operation of their businesses. Therefore, the government should decrease the tax rate levied upon to the commercial banks. Similarly, government can decrease cash reserve ratio, statuary liquidity ratio and extending of the tax payable time beyond the existing time limit without fine.

Further government should educate the individual as well as corporate house about the important of income tax. Similarly, it should simplify the income tax act, provide training facility to the employee of tax administration.

4. Tax personnel also should improve their behavior towards the taxpayers. Unfriendly behaviors is the main factor of discouragement and harassment that cause reducing voluntary compliance of tax, showing hesitation in taxpaying feeling that income tax as a burden. Similarly, Tax incentives are a kind of supporter for investment. When commercial banks are also given certain tax incentives like tax rebate on the income from investing in priority sectors, high rate of depreciation allowance on computing machines, all the commercial banks compete to invest in the priority sectors and use the sophisticated computing machines which increase the income by increasing investment and reducing operating cost. Finally, the taxable income will be increased and tax too.

5. Tax personnel are the main actors of the tax administration. They are responsible for implementation of policies formulated by ministry of finance and Inland Revenue department to obtain the set goals. They should know about each provision included in the tax law for the smooth implementation of tax administration. Maximum tax collection is only possible when the tax personnel are acquainted with income tax act as well as detailed knowledge of income tax act.

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Appendix- I

Calculation of Mean, Standard deviation of NABIL Bank Ltd.

Year	Income Tax Paid (X)	(X- $\bar{X}$)	(X- $\bar{X}$)^2
2004/2005	239.15	-86.36	7458.04
2005/2006	262.56	-62.95	3962.7
2006/2007	314.53	-10.98	120.56
2007/2008	340.62	15.11	228.31
2008/2009	470.7	145.19	21080.14
	1627.56		32849.75

$\bar{X} = \sum X/n$ S.D = $\sqrt{\sum(X-\bar{X})2/n}$ C.V = S.D/ $\bar{X}$ * 100%

= 1627.56/5 = 32849.75/5 = 81.05/325.51*100%

=325.51 = 81.05 = 24.90

Calculation of Mean, Standard Deviation of Nepal Investment Bank

Year	Income Tax Paid(X)	(X- $\bar{X}$)	(X- $\bar{X}$)^2
2004/2005	101.53	-136.608	18661.74
2005/2006	154.38	-83.758	7015.4
2006/2007	221.98	-16.158	261.08
2007/2008	323.22	85.082	7238.94
2008/2009	389.58	151.442	22934.67
	1190.69		56111.83

$\bar{X} = \sum X/n$

S.D = $\sqrt{\sum(X-\bar{X})}$ ^{2}/n C.V = S.D/ $\bar{X}$ *100

= 1190.69/5 = 56111.83/5 = 105.93/238.138*100

= 238.138 = 105.93 = 44.48%

Calculation of Mean and Standard deviation of Standard Chartered bank

Year	Income Tax Paid(X)	(X- $\overline{X}$)	(X- $\overline{X}$)^2
2004/2005	258.94	-75.756	5738.97
2005/2006	274.5	-60.196	3623.55
2006/2007	315.43	-19.266	371.17
2007/2008	381.49	46.794	2189.67
2008/2009	443.12	108.424	11755.76
	1673.48		23679.12

$\overline{X}$ = $\sum$X/n   S.D = $\sqrt{\sum(X-\overline{X})2/n}$ C.V = S.D / $\overline{X}$ *100

= 1673.48/5   = 23679.12/5   = 68.81/ 334.696 *100

= 334.696   = 68.81   = 20.55

Calculation of Mean and Standard deviation of Himalayan Bank Ltd

Year	Income Tax paid(X)	(X- $\overline{X}$)	(X- $\overline{X}$)
2004/2005	214.26	-46.68	2179.02
2005/2006	214.94	-46	2116
2006/2007	225.58	-35.36	1250.32
2007/2008	309.15	48.21	2324.2
2008/2009	340.77	79.83	6372.82
	1304.7		14242.36

$\overline{X}$ = $\sum$X/n   S.D = $\sqrt{\sum(X-\overline{X})2/n}$ C.V = S.D / $\overline{X}$ *100

= 13045.7/5   = 14242.36/5   = 53.37/260.94*100

= 260.94   = 53.37   = 20.45%

Calculation of Mean and Standard deviation of SBI Bank Ltd

Year	Income Tax paid(X)	(X- $\overline{X}$)	(X- $\overline{X}$)2
2004/2005	67.8	-24.096	580.62
2005/2006	66.12	-25.776	664.35
2006/2007	86.7	-5.196	26.99

2007/2008	105.74	13.844	191.65

Year	Income Tax paid(X)	(X- $\overline{X}$)	(X- $\overline{X}$)2
2004/2005	81.91	-63.448	4025.64
2005/2006	106.75	-38.608	1490.58
2006/2007	144.36	-0.998	0.996
2007/2008	216.91	71.552	5119.68
2008/2009	176.86	31.502	992.37
	726.79		11629.266

2008/2009	133.12	41.224	1699.41
	459.48		3163.02

$\overline{X} = \sum X/n$ S.D = $\sqrt{\sum (X - \overline{X})2/n}$ C.V = S.D/ $\overline{X}$ *100

= 459.48/5 = 3163.02/5 = 25.15/91.896*100

. = 91.896 = 25.15 = 27.36%

Calculation of Mean, Standard deviation of Everest Bank Ltd

$\overline{X} = \sum X/n$ S.D = $\sqrt{\sum (X - \overline{X})2/n}$ C.V = S.D/ $\overline{X}$ * 100

= 726.79/5 = 11619.266/5 = 48.20/145.358*100

= 145.358 = 48.20 = 33.15%

Calculation of Mean and Standard deviation of Bank of Kathmandu Ltd

Year	Income Tax paid(X)	(X- $\overline{X}$)	(X- $\overline{X}$)2
2004/2005	64.76	-62.488	3904.75
2005/2006	93.23	-34.018	1157.22

2006/2007	115.42	-11.828	139.9
2007/2008	162.53	35.282	1244.81
2008/2009	200.3	73.052	5336.59
	636.24		11783.27

$\bar{X} = \sum X/n$ S.D = $\sqrt{\sum (X-\bar{X})2/n}$ C.V= S.D/ $\bar{X}$ *100

= 636.24/5 = 11783.27/5 = 48.54/127.248*100

= 127.248 = 48.54 = 38.15%

Calculation of mean and standard deviation of Nepal Industrial and Commercial Bank

Year	Income Tax paid(X)	(X- $\bar{X}$)	(X- $\bar{X}$)2
2004/2005	50.97	-130.268	16969.75
2005/2006	40.8	-42.468	1803.53
2006/2007	72.68	-10.588	112.1
2007/2008	113.98	30.712	943.22
2008/2009	137.91	54.642	2985.74
	416.34		22814.34

$\bar{X} = \sum X/n$ S.D= $\sqrt{\sum (X-\bar{X})2/n}$ C.V= S.D/ $\bar{X}$ *100

=416.34/5 = 22814.34/5 = 67.54/83.268

= 83.268 = 67.54 = 81.11%

Calculation of mean and standard deviation of Nepal Credit and Commerce Bank

Year	Income Tax paid(X)	(X- $\bar{X}$)	(X- $\bar{X}$)2
2004/2005	-	-	-
2005/2006	-	-	-
2006/2007	40.04	-3.606	13
2007/2008	75.33	31.684	1003.87
2008/2009	102.86	59.214	3506.29
	218.23		4523.16

$\bar{X} = \sum X/n$ = 218 .23/5 = 43.646

S.D= $\sqrt{\sum (X-\bar{X})2/n}$ = 4523.16/5 = 30.07

C.V=S.D/ $\bar{X}$ *100 = 30.07/43.646*100 = 68.89%

Appendix- II

Questionnaire

This questionnaire is prepared to assist the research conducted for the partial fulfillment of requirement of the (MBS) Master's in Business Studies. The collected views will be used for the purpose of this study and will not be misused other that for this research purpose.

Name:
Designation:
Office:

1. In your opinion, is the income tax is suitable means for raising government revenue?

a) Yes b) No

2. Is the corporate tax rate reasonable?

a) Yes b) No

3. Does the government provide any facility to generate more income tax?

a) Yes b) No

If not what facility you expect from government (Please rank 1 for higher preference and 3 for lower preference)

a) Decrease Cash Reserve Ratio (CRR)
b) Decrease Statuary Liquidity Ratio (SLR)
c) Extend the tax payable time beyond the existing time limit without fine
d) If other please specify

……………………………………………………………………………….

4. Do you have comment about fines and penalties imposed by Inland Revenue Department?

a) Yes b) No

If yes please point out them.

……………………………………………………………………………….
……………………………………………………………………………….

5. Whether the income tax system of Nepal is efficient?

a) Yes b) No

6. If not, what are the major problems of income tax system of Nepal?
(Please Rank: 1 for higher preference and 6 for lower preference)

a) Complexity in income tax act.
b) Less consciousness of tax payers
c) Lack of training facility to the employee
d) Increasing habits on tax evasion of tax payers
e) Lack of experts in income tax management
f) Misuse of power by tax administrator

7. Are you satisfied with the tax authority's behavior?

a) Yes b) No

If not, what types of behavior do you think as bad?

a) Unhelpful b) Corrupt
c) Red tapping d) Rude

8. Do you think current (self assessment) procedure is simple?

a) Yes b) No

If not what are the problem existing?

9. What is the tax paying habit of commercial banks?

a) Positive b) Negative

c) Moderate d) highly positive

10. What are the most important factors for effectiveness of income tax in Nepal? (Please Rank 1 for higher preference and 5 for lower preference)

a) Honest tax payers
b) Honest tax officer
c) Clear act, rules and regulation
d) Effective income tax administration
e) If other please specify………………………………………………………………
………………………………………………………………………………………….

11. Is the new "Income Tax Act 2058" of Nepal effective to previous "Income Tax Act 2031?"
a) Yes
b) No

12. If yes, what are the reasons? (Please rank 1 for higher preference and 6 for lower preference)

a) Change in various tax related concession, rebates and exemptions
b) Taxing capital gain and dividend
c) Specification of stock valuation method
d) Provision of setting off and carry forwarding business losses
e) Provision of all income tax related matters within one act
f) Simplification of depreciation related provision.