

CHAPTER-I

INTRODUCTION

1.1 Background of the Study:

Nepal is a under developed land locked diversified country situated between two large countries China and India. This country is divided into five Development Regions and three geographic regions to ensure proper and balanced economic and physical development activities. The country is also divided in to 14 Zones and 75 Districts for political and administrative purpose. Each district has been further divided into smallest administrative units called Village Development Committee (VDC)'s. and Municipalities. Recently, there are 3915 VDCs and 58 Municipalities.

Now a day, after the people's movement 062/63, the country has been declared as Federal Republic Country from a Monarchy. The new constitution is going to be written by newly elected constitutional assembly. So it is not clear how many state and what types of system will be developed. Only after finalizing the new constitution will decide these matters. Till now there are two types of government existing in Nepal. The first is the central government and next is the local government. District Development Committee (DDC), Municipalities and VDCs are the bodies of local government. Government has assigned Pokhara as a head quarter for various responsibilities for the administrative and development of local Areas. Pokhara Sub-Municipal Corporation (PSMC) situated southern foot of Annapurna Himalayan Range, which is the middle hill of the Western Development Region of Nepal. It is a remarkable place for natural beauty at an altitude of 827m from the sea levels and 200 KM west of Capital city Kathmandu. This city is ever known as a real paradise in Earth. The valley is filled with swift flowing linear and dotted with

clear gleaming lakes. A 140KM of panoramic Himalayan ranges seem close enough to be touched. The serenity from the nature can not only be touched but also be felt. In 1958(2015BS), it is formally declared as a municipality and resumed into Town Panchayat in 1966(2022 BS). Designation of Pokhara as the headquarter of the western Development Region of Nepal in 1972(2029 BS) contributed to upgrade it into the present status of Sub-Municipal Corporation in 1996(2052 BS). The total area of the municipality is 56.55 sq. KM. Its census population is 214,226 and estimated household is 41000. (Brochure of PSMC, 2007)

There are a lot of development programs going on, in this municipal corporation. Because of its natural beauty, favorable climate and comfortable life style the high rate of population migration from surrounding VDC's as well as other districts. The no of enterprises are also increasing here. In fiscal year 066/067, there are 10,210 no of enterprises as per its nature. PSMC have been facing so many different challenges. The population of PSMC increasing rapidly and urban people are expecting more and more urban facilities for their sophisticated life style. Municipal should effectively mobilize local resources to overcome the financial crisis. PSMC gets revenue from taxes fees, and grant from different sources.

Tax is a compulsory exaction of money by public authority for public purpose enforceable by law and is not a payment for service rendered. Thus tax charged by the government on income, property or expenses of an individual or group of individuals and taxation is a device or process of imposing tax. Therefore, taxation is considered as a powerful instrument of government for raising revenue in Nepal. Income taxes, property tax, business profit taxes are direct taxes and customs, excise, enterprise tax, are indirect ones. (Manandhar, 2001, p.2)

Local tax is the tax imposed by local governments. It is not a single but group of taxes. The main variant of local taxes is property tax, which means a tax imposed by local body on the value of property located within the jurisdiction of that local body. The other variants are vehicle tax, business tax, user charges etc. The authority to collect the revenue to local bodies is given to provide real autonomy to them since no autonomy can be felt without sufficient self- mobilized revenue. (Kandel, 2003.p11)

Enterprise tax is indirect tax which is imposing annually under Local Self Governance Act (LSA). It is one of the most reliable sources of municipality. The contribution of the enterprise tax is only average 3.30% there fore PSMC is trying to enlarge its boundary and doing work over there this kind of tax is levied upon the pursuit of particular profession. Many types of Enterprises are being run in urban areas. They use various types of municipal services. So the local government can impose the tax on enterprise on the basis of capital investment and turnover or at fixed rate.

Tax zone is an impoverished area in which business are exempt from certain taxes and are given other economic advantages as an inducement to locate there and employ residents. (www.thefreedictionary.com)

1.2 Focus of the Study:

Financial aspect is the most vital aspect of every organization, whether it is profit oriented or service oriented like Municipal Corporation. Any operational activities, programs remain only on paper without management of financial aspect. Urban people are expecting more urban services/facilities. So, PSMC have to fulfill those demand by providing numerous facilities. To meet the expectation PSMC needs their own regular financial sources. Municipal has to mobilize local sources effectively to over come financial crisis. Enterprise tax is

one of the local taxes among them. The study aims to analyze enterprise tax collection efficiency, collection trend, tax payer attitude, present status of enterprise tax of PSMC. Thus, whole energy and effort concentrate on analysis of enterprise tax by using descriptive and analytical research design, during the period of ten years starting from F/Y 2057/058.

1.3 Statement of the problem:

Now a day's urban population growth is going higher and higher. Those urban people are expecting more urban facilities. Municipalities have to fulfill those demands by developing and providing numerous urban facilities. To meet people's expectation, corporation needs their own regular financial sources. In the past octroi was the main source of finance for municipalities. After abolition of octroi local self governance act (LSA) was implemented and it introduces the local development tax (LDT). LSA has empowered municipals to collect the house land tax, integrated property tax, rent tax, vehicle tax, entertainment tax, advertisement tax, enterprise tax etc. but those taxes have contributed in low level. There fore, Municipal corporations are suffering from financial problem.

The population of PSMC increasing rapidly and urban people are expecting more urban facilities, for their sophisticated life style. Municipality needs to mobilize local resources effectively to overcome the financial crisis. Therefore, the study focuses on how the Enterprise tax yield can be improved and financial crisis done away basically in case of PSMC. It also tries to solve the following research problems.

- I. What is the contribution trend of enterprise tax to total revenue of PSMC?
- II. What is the collection efficiency of enterprise tax in PSMC?
- III. What is the present enterprise tax collection procedure?

- IV. What is the attitude of enterprise tax payers in PSMC?
- V. What are the expectations of tax payer against their contribution?
- VI. In how many tax zones should PSMC be divided for enterprise tax?
- VII. Where will be the appropriate venue for collecting the enterprise tax?
- VIII. What will be the remedial measures to increase the enterprise tax yield?

1.4 Objectives of the Study:

The basic objective of the study is to analyze the present status of enterprise tax and suggest PSMC to improve the collection efficiency and procedure of enterprise tax. The specific objectives of the study are as follows,

- i) To understand the attitude of enterprise taxpayers.
- ii) To evaluate the collection efficiency of enterprise tax yield.
- iii) To analyze the collection and trend of enterprise tax to the revenue of PSMC.
- iv) To analyze the current enterprise tax collection system.
- v) To explore the expectation of taxpayers against their contribution.
- vi) To analyze the opinions of taxpayers about the tax zones.
- vii) To analyze the opinions of tax payers about enterprise tax collection venue.
- viii) To provide the suggestions to PSMC to improve the enterprise tax yield.

1.5 Significance of the Study:

The study is concerned with the enterprise tax of PSMC, revenue generation from local financial autonomy of municipalities. In this threatening situation, study on enterprise tax in PSMC may be instrument / helping hand for municipalities to mobilize/generate the resources through this tax. Therefore, the study has its own existence. It will help all concerned people, government,

political parties to understand the enterprise tax procedure of PSMC. This also helps to show the trend of enterprise tax. So, it will provide essential information to the interested parties and concerned authorities. Moreover, study will be helpful for PSMC to check out the management plan for the collection of enterprise tax. Therefore, the study about the enterprise tax was considered desirable.

1.6 Delimitation of the Study:

The study is based on a case study on enterprise tax of PSMC, which may not represent the overall taxation. Basically the study is limited with in the following factors.

- i. The study is not carrying out in micro level study on enterprise tax due to time and budget constraints.
- ii. The study is limited with in the jurisdiction of PSMC. The study is based mainly on primary data collected from the sample entrepreneurs and secondary data provided by PSMC.
- iii. Last 10 years (i.e. 057/058 through 066/067) data is taken into consideration for the study purpose.
- iv. The study is simply a partial fulfillment of MBS degree.

1.7 Organization of the Study:

The study has been divided into five chapters – Introduction, Literature Review, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendations.

The first chapter deals with the backdrops of the study, statement of the problem, objectives, significance and delimitation of the study and

organization of study. The second chapter reviews the enterprise tax, historical background of the enterprise tax in Nepal, procedure of collecting enterprise tax and the dissertations as well as related journals and reports. The third chapter deals with data plan, study area, sample frame and sample, data collection, pilot test, data mining and analysis techniques. Basically this chapter focuses the methodologies followed in the study.

The fourth chapter is the heart of the study and presents the primary and secondary data. This chapter presents the analysis of awareness of taxpayer about the enterprise tax, attitude of tax payers and payment of enterprise tax. It also analyses the contribution of enterprise tax to the revenue of PSMC and its trend. The last chapter summarizes the whole study and draws the conclusion which recommends improving the collection efficiency of enterprise tax.

CHAPTER–II

LITERATURE REVIEW

This chapter presents the theoretical framework and research review. The former section presents the relevant theoretical aspects of the study and latter deals with related research report.

2.1 Conceptual Review

This section deals with the concepts of local taxation, history of local tax including enterprise tax in Nepal, rationale of enterprise tax, autonomy in the enterprise tax along with existing procedure of collecting enterprise tax.

2.1.1 Concept of Taxation

Tax is a compulsory monetary contribution to a state by its residents without getting corresponding benefits of service or goods from the government. The government of any country needs adequate budget to run administrative/development activities. The government through various sources collects the revenue. Tax is the major sources of government revenue.

Seligman has defined tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

According to **Plehn**, taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states.

“A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer return and not imposed as penalty for any legal offence”. – Dalton

“Tax is a compulsory payment to the government without exception of direct expenses of direct return as benefit to the tax payers.” – Taylor

“A tax is a compulsory contribution of wealth of person or body of persons for the service of public powers”. – Bastable

From the above definition, it is clear that tax is imposed on the person by the government according to the laws of the country. If the person on whom tax is imposed does not pay, law will punish him. The government does not provide any corresponding benefits to a state by its residents for which the state provides security of them.

Tax is classified in to two categories i-e Direct and Indirect. “A direct tax is really paid by the person on whom it is legally imposed.”- Dr. Dalton

The person paying and bearing tax is same in direct tax. Income tax, property tax, land tax, Interest tax, enterprise tax, gift tax etc. are the example of direct tax.

“Indirect tax is imposed on one person but paid partly or wholly by another”. – Dr. Dalton. Value added tax, import/export/excise duties, hotel tax etc. are the examples of indirect taxes where the person paying and bearing tax is different. (Kandel, 2003.p11)

2.1.1.1 Concept of Local Taxation:

Local tax is the tax imposed by local governments. It is not a single but group of taxes. The main variant of local taxes is property tax, which means a tax imposed by local body on the value of property located within the jurisdiction of that local body. The other variants re vehicle tax, business tax, user charges etc. The authority to collect the revenue to local bodies is given to provide real

autonomy to them since no autonomy can be felt without sufficient self-mobilized revenue. (Kandel, 2003.p11)

According to MC–master, local taxation has interpreted in three ways.

- I. Taxes which municipalities impose by their own legislation and which they assess and / or collected,
- II. Taxes levied under national legislation but with tariffs determined by municipalities (either freely or with in statutory limits) and,
- III. Taxes which are levied and administered by central government but whose proceeds are given to shared with, or surcharged by municipalities. (Jemes,1994.p 25)

In Nepal, local government itself can not levy the taxes to the residents and entrepreneurs. GON should empower the local authority to levy different type's local taxes. Municipal council only can determine the rate o taxes with in the statutory limits provided by the legislation. LSA has empowered the municipalities to impose land revenue and house land tax, vehicle tax, enterprise tax and collect parking charge, service charge etc. LSR has provided the statutory limits of local taxes. So, municipalities have determined the rate of taxes with in statutory limits. (Manandhar, 2001.p 8)

2.1.1.2 Categories of Local Taxation:

Income tax is almost invariably a major national government tax source. There are number of ways in which local governments in different parts of the world derive revenue from the taxation of income. The local authority can impose the following local taxes.

Separate local income taxes: Local authority can impose separate income taxes distinct from national income tax. Local authorities in Finland have this

power. The taxpayers have to pay the tax on their income to the federal and state governments.

Surcharge on national income tax: It is a common system for local authorities to impose a surcharge on the national income tax. Local authorities in Japan and a number of European countries – Belgium, Denmark, Italy, Norway, Sweden and Switzerland have this power. Law may fix the rate of surcharges. Surcharge is normally a flat percentage rate charged on taxable income. Tax on house rent is the example of surcharge in Nepalese context.

Assignment of national income tax: In several countries, the central government assignment assigns to local authorities a fixed percentage of the national income tax collected. Turkey, South Korea, Philippines and the Federal Republic of Germany have such law.

A Tax on Enterprise: A tax, which is imposed upon the pursuit of a particular enterprise (such as, medicine or the law), is called enterprise tax. In certain countries have this power to local authorities. The tax may consist of a percentage applied to payroll or turnover or, alternatively a fixed rate for each enterprise.

Mass Personal taxes: In some developing countries, local authorities have levied a general personal tax on the lower segments of income which fall below the point at which liability for national income tax begins. This has operated in countries where only a relatively small minority pays national income tax, partly because most income tax administration is not geared to cover a mass of peasant farmers, small traders and so forth. These taxes have operated in tropical Africa, where traditions of communal land ownership and

shifting cultivation have made land taxation an unsuitable base for mass taxation (James, 1994. p25).

2.1.1.3 Taxes on Expenditure:

This category includes local sale taxes, royalties, entertainment taxes, vehicle taxes and so forth.

Sales of goods: Taxes on sales of goods are normally levied by the central government or by the state level in federation. But the local authority can levy surcharge on sales of goods. About 3000 local authorities in the United States impose a surcharge on state sales tax. Madras Municipal Corporation receives part of similar surcharge. Municipalities in the Netherlands and Philippines receive a share of national sales tax and Brazilian municipalities receive nearly 20 percent of value added tax. A local surcharge on petroleum sales taxes operates some cities in Japan and both north and South America.

Sales of Services: Municipality can impose a local tax on sales of individual services like entertainment including cinemas, theaters and sports, hotels and restaurants and public utilities bills such as electricity, gas and telephone etc. In Nepal, LSA has provided authority to impose entertainment tax to the local authority.

Movement of goods: The tax, which is collected through the equivalent of custom posts on the borders of cities and towns, entering the goods for use, consumption or sale. Such type of tax is known as octroi. Before its abolition, it was a major source of the municipal revenue.

Taxation on Vehicles: A number of countries recognize taxation on vehicle and assign vehicle taxes to municipality authorities. Colombia, Egypt, South

Korea and Spain are examples. In India, Indonesia and Pakistan, taxes on motor vehicles are reserved to state or provincial authorities but local authority tax non-motor vehicles such as bicycles, bullock carts and rickshaws. In Nepalese context LSA has empowered in municipality to collect the vehicle registration and annual vehicle tax and occasional vehicle tax (Jemes,1994.p29).

2.1.2 Historical Background of Enterprise Tax in Nepal:

Municipalities have been collecting some revenue in the forms of taxes and fee since mid of 1960 AD (2017 BS). HMG/Nepal authorized the municipality to impose taxes and fees in 1962 AD (2019 B.S). When the Nagar Panchayat Act 2019 was enforced. Many times the act was amended. HMG/Nepal enforced the Municipality Act in 1991 and repealed the Nagar Panchayat Act. The new act provided municipalities the additional rights on the matter of local.

Nagar Panchayat Act 2019 was the first act that provided the authority to the municipalities to impose local tax although it was in existence since mid of 1960 (2017). Nagar Panchayat Act 2019 was published in " Nepal Gazette" on 4th Bhadra, 2019. Section 39(3) of the act has mentioned about the enterprise tax. As per the act, the municipality can impose tax on specific trade, business or profession within its jurisdiction on the basis of capital investment and transaction. HMG/Nepal enforced the Nagar Panchayat working Management Rules 2020 on 28th Ashwin, 2020. This rule had prescribed the statutory limits of enterprise tax. This rule had made a provision for collection of enterprise tax annually.

After the restoration of the democracy, the democratic government enforced the Municipality Act 2048 on 26 Chaitra, 2048 and repealed the Panchayat act.

According to the new act, HMG/Nepal formulated the Municipality working Management Rules in 2049. This new act and rules empowered the municipalities to impose and collect taxes and fees in the prescribed manner on trades, business or occupations on the basis of the capital investment and turnover” (Manandhar, 2001.p 11-12).

HMG/Nepal enforced the Local Self-Governance Act in 2055. The new act has emphasized the autonomy of the local governments. LSA has empowered municipalities to impose different types of local taxes – land revenue, house and land tax, rent tax, enterprise tax, vehicle tax, property tax, advertisement tax and charges for urban services – parking, electricity, water tape, public telephone, and waste management services on section 136-145. Moreover, it has empowered them to impose different types of fees such as recommendation fee, approval fee, property valuation fee, building permission fee etc. and penalties. It have empowered municipalities to raise loans, with or without pledging any property under their ownership and possession or under or under guarantee given by the government, from a financial institution or any other organizations, approved by the Municipal Council. This act is totally based on upon all the previous acts, which incorporates some additional provisions regarding the local government financial management (Local Self Governance Act 2055).

Government formed local self government regulation on 2056. This regulation emphasized on devolution on necessary power, responsibility and resources to make local bodies capable and effective, encrougement for the evolvment of private sector and devolution of authority to mobilize revenue. It has also prescribed the minimum and maximum limits of the rate that may be impose by municipality. Thus Government has not provided the full fiscal autonomy regarding the enterprise tax issue.

2.1.3 Rationale of Enterprise Tax :

Local government is playing the vital role in the development of the country. The local body should be autonomous and powerful so that they can exploit the factors of production for the development. In municipal sector, the municipalities are playing vital role in development. In any organization, sound financial management is considered the backbone of the whole investment procedures. In this same line, municipality also should have sound sources to generate the required fund so that it can play important role for urban development. Strengthening the municipal finance is very important. It is impossible to meet the growing need of urban service and develop the area in a planned way without the improvement in the financial system.

In Nepalese context, after abolition of octroi, internal sources are not enough even to meet operating expenses of the municipal service. So it is imperative to mobilize the local resources property to meet the financial requirements for urban infrastructure development. The urbanization process is increasing rapidly in Nepal. Consumption of goods and services are also increasing. People are expecting more and more urban facilities for their sophisticated life style. Municipal need to mobilize local sources effectively to over come the financial crisis.

The enterprises are getting sufficient market for their product and services. So, the enterprises should pay the tax to the local authority against their earning. In the same line, enterprises which are operating within the area of municipality use the facilities provided by the municipal government like street light, drainage, parking and solid waste management. So, the enterprises have to pay the enterprise tax against their consumption of urban services.

Various types of enterprises are operating within the area of municipality. On the one side, they provide different types of service to the urban people, on the one side; they also pollute the environment of the area. The local government should invest lots of money for the protection of the environment. It is rationale to levy enterprise tax from the environment protection viewpoint also. So, the enterprise should contribute for the better management of the urban environment.

2.1.4 Procedure of Collection of Enterprise Tax:

Enterprise tax is a direct tax that can be imposed by the municipalities on trade, profession or occupation within its jurisdiction on the basis of capital investment and financial transaction. The process of collecting enterprise tax is different in different municipalities. Municipal board determines enterprise tax rate within the statutory limits for different types of enterprises.

2.1.4.1 Identification of Tax Payers:

PSMC have not any specific method to identify the taxpayers. It includes those enterprises in the tax roll that, who register their enterprises with the Municipality. On the other hand, the Municipality requests the entrepreneurs to register their enterprise if they need any recommendation for business purpose. Then, the Municipality includes them in the tax roll. So, PSMC is unable to identify the taxpayers due to lack of specific policy to update the tax roll. In case of Pokhara a lot of enterprises are operating without registration and without paying enterprise tax in the municipal.

2.1.4.2 Tax Assessment:

In all Municipalities a budget making committee is formed to make its annual budget. Here also, Budget committee prepares the budget of municipality and present to the municipal board. It decides the rates for different enterprises

and forwarded to the municipal council for its approval under the statutory limit of central government. Then Municipal council fixed the rate and revenue section assessment the liabilities for each registered enterprise.

2.1.4.3 Billing of Tax Liabilities:

PSMC have not any mechanism to send the bills for enterprise tax to the tax payers. Entrepreneurs themselves have to pay their due tax at PSMC revenue counter or at their own doorstep when the enterprise tax collection team visits. They know their tax liabilities at the time of payment only. So, PSMC is unable to launch the specific policy to send bill to taxpayers. Now the starting F/Y 066/067, PSMC manage to collect enterprise tax at Pokhara Chamber of Commerce and Industry (PCCI) office. According to new agreement, 30% income provided to PCCI and rest for Municipal Corporation. Due to this new agreement, Municipal is expecting more revenue from enterprise tax.

2.1.4.4 Collection of Taxes:

PSMC collects the enterprise tax at the PSMC revenue counter, doorsteps of taxpayers and also a PCCI office. In reality, no one pay enterprise tax easily. PSMC collects the tax when taxpayers become compelled to clear the tax due to entitle any service from PSMC. If they fail to pay their liabilities within fiscal year, they have to pay fine and penalties in the next fiscal year as per the by laws of PSMC. But in reality, PSMC is not capable to collect even due tax from the registered entrepreneurs. Municipality has assign duties to collect enterprise tax at doorstep by collection team. This team requests the taxpayer for the due tax.

2.1.5 Enterprise Tax Sub-Section in the Organization Structure of Tax Section of PSMC :

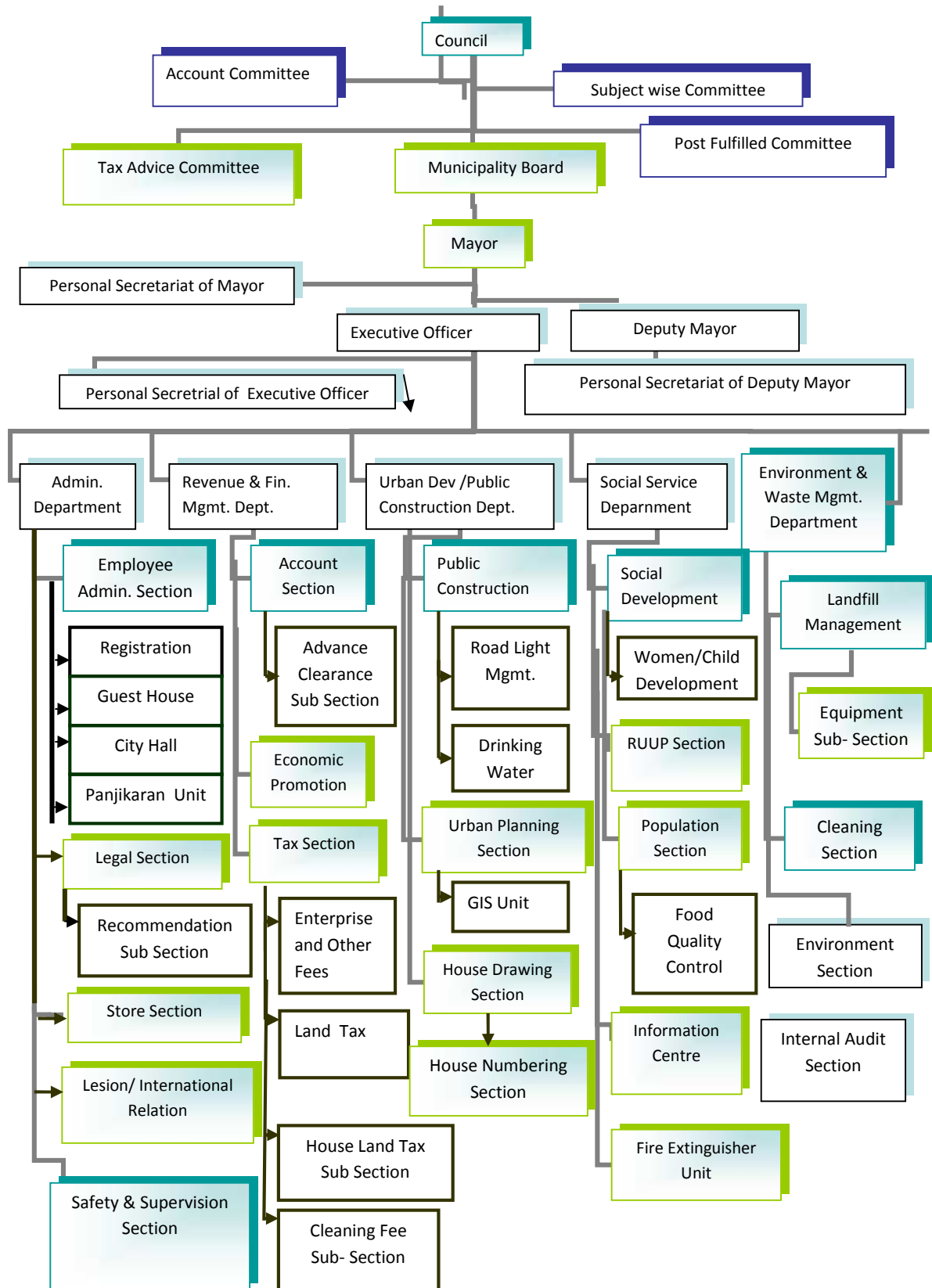
Municipal Council is the highest policy making body and municipal board is the executing body of municipality. Municipal board includes mayors, deputy mayor, and elected ward chairman of each ward committee, two nominated members and executive officer. Executive officer is administrative and secretary of the board. Under executive officer, PSMC has five department, (i) Administrative Department, (ii) Revenue & Financial Management Department, (iii) Urban Development & Public Construction Department, (iv) Social Service Department, (v) Environment and Waste Management Department .

Revenue and Financial Management Department has three Sections– i) Economic Administration Section ii) Economic Promotional Section and iii) Revenue Section. Revenue Section has four Sub -Section – i) Enterprise & Other related tax, ii) Land Revenue Sub- Section iii) house- land tax Sub-Section and iv) Cleaning Fee Section.

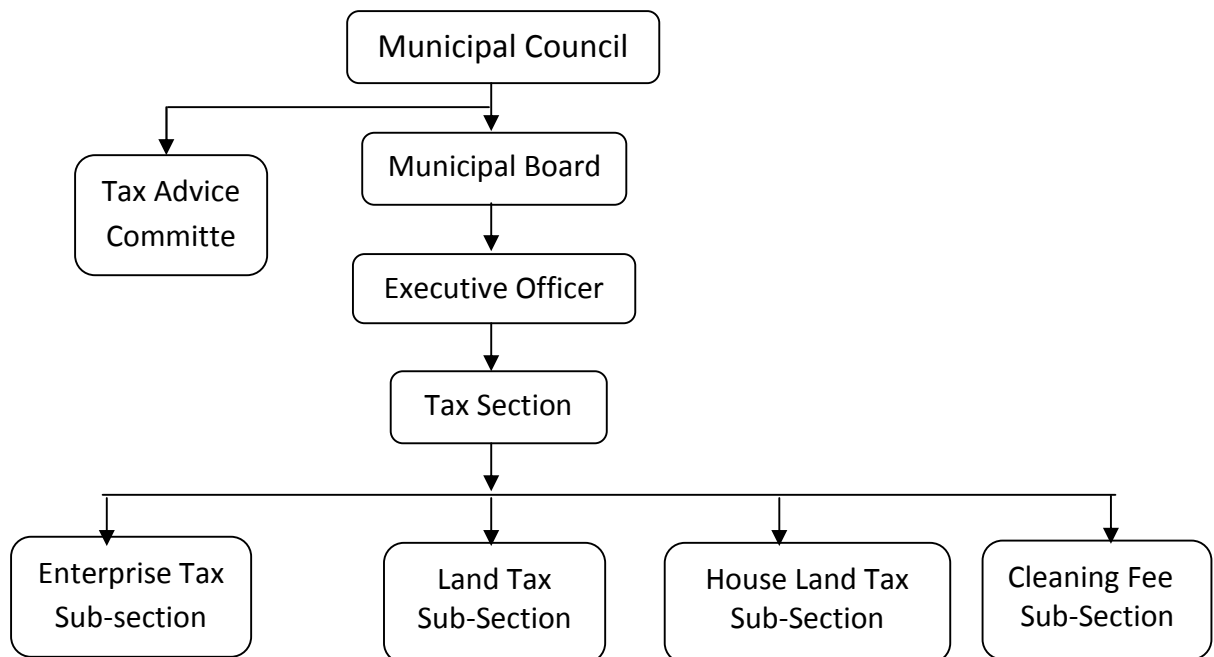
There is doorstep collection team formed by PSMC with one team leader. This team investigates and informs the municipal authority about the enterprise, which is not registered with PSMC. It also confirms whether the entrepreneurs are paying the tax or not.

From the 13th Council meeting it was declared to collect enterprise tax with the partnership of PCCI. Now, it started to collect enterprise tax their too.

Pokhara Sub – Municipal Corporation Existing Organization Structure



Organization Structure of Tax Section



Source: Pokhara Sub-Metropolitan City Office, Pokhara

2.2 Research Review:

This Section presents the review of different dissertations and reports related to municipal finance.

2.2.1 Review of Dissertations:

Manandhar (2001) has conducted a study on the enterprise tax of Pokhara Sub- Municipal Corporation. The basic objective of this study was to analyze the present status of enterprise tax, evaluate the collection and trend, collection efficiency, tax payer's attitude and suggest PSMC to improve the collection efficiency of enterprise tax. The study covered the time period of 12 years from fiscal year 2045/046 through 2056/057. The researcher had concluded that, the trend of enterprise tax is highly fluctuating during the study period. PSMC did not have preferable modes of communication about the enterprise tax and the collection procedure is not suitable for taxpayers. PSMC was not mobilized the collection team effectively. Municipality was not collecting the potential revenue from the enterprise tax because of ineffective

collection procedure and lack of appropriate legal action against defaulters. So, he recommended that municipality should indentify the taxpayer and the tax rolls should be updated yearly. Door steps collection group of the taxpayers should be effectively mobilized to investigate the new entrepreneurs and tax defaulters. Municipality should aware all entrepreneurs about the enterprise tax. PSMC should dispatch the information of tax liability in advance and improve the present tax assessment system. The collection group should be advised to visit each enterprise for investigation and follow up the taxpayers. The researcher has used different statical tools, charts, graphs and figures in the study.

Budhathoki (2002) has done a research of financial Analysis and fore Casting of Pokhara Sub - Municipal Corporation. The study mainly based on Secondary data receive from PSMC office and other related institutions. The study was based on past 13 year's data's. The objectives of the study was carried out financial analysis and forecasting of PSMC. The main objectives was analyze present sources of revenue for next 15 years, trend of the revenue, expenditure and coming future trend analysis. The average contribution of internal sources of revenue is 61 % to the total revenue collection. The average contribution of expenditure of external a source of revenue is 39 % to the total revenue collection. Average recurrent expenditure was 28.19% to the total expenditure. Salary/ remuneration expenditure covered around 49% of the total recurrent expenditure. The average non- current expenditure was 71.81%. In which, construction and maintenance covered 34% and loan and grant covered 54% respectively. The projected internal and external revenue is Rs. 57.39 million and Rs.72.19 million for future years. Total projected revenue was 129.58 million. He concluded that the revenue collection of PSMC was fluctuated over the study period. PSMC was fully dependent to the external sources regarding the financial matters because of the poor

generation of local revenue. Overall financial position of the municipality was fluctuating during the study period. Decreasing trend of recurrent expenditure from 46% to 28% still it is above the normal standard and was recommended to reduce this ratio below 25% of aggregate percentage. So, he was recommended that PSMC should utilize that fund for the urban infrastructure development works. Still PSMC adopting traditional financial data management system, which created so many problems, while carrying out analytical and research work. So, PSMC should hire some financial experts for its financial planning and control to improve its present financial condition.

Dhungana (2003) has conducted a study on Rural- Urban Partnership program, A Case study of PSMC. The researcher has used secondary data. The objectives were, performance analysis, financial pattern of RUPP funded enterprises, financial sustainability of the enterprises and future prospect and existence of RUPP funded enterprises. Researcher had concluded that, the RUPP program has mainly focused to trading enterprises and less for other enterprises like service, manufacturing. The program has provided sufficient information to the target groups about the program objective and activities. She concludes that program has not contributed much to promote the business enterprises to generate the employment and uplift the standard of living of the target group. She recommended that program should motivate its potential entrepreneurs to establish such higher revenue generated enterprises, and program should focus on and within its target group. Researcher also recommended that, RUPP program should initiate to promote new enterprises and also provide them continuous financial support.

Adhikari (2004) has done a research on Financial Analysis of Pokhara Sub - Municipal Corporation. The study was basically based on secondary data as well as some primary data. The research has concentrated on analysis of

relative and absolute financial performance, financial weakness and strength, required suggestions for improvement of financial situation of PSMC that overcome financial crisis. He has conducted that octroi was the major sources of revenue, which covered 89.25% to 95.80% of its own revenue. Revenue of PSMC was fluctuating during the study. PSMC has generated 33.33% to 97.84% revenue from internal sources and 2.16% to 66.76% from external sources. In, average PSMC has raised 81% of revenue from internal source during the observed period. Grant was the major source of external financing. PSMC has raised 11.61% to 99.16% of revenue raised from external source of grant in aid. Although the potential sources of revenue were not fully identified, revenue was always excess over the total expenditure. Expenditure of PSMC was increasing year by year due to the rapid urbanization and extension of level of civic amenities to city dwellers. In the average total expenditure, current expenditure, ordinary capital investment and development expenditure were increasing. The percentage of consumption expenditure to total current expenditure ranges from 42.03% to 74.67%. PSMC's Developmental expenditure was always higher than regular expenditure. Lastly, his findings was revenue of PSMC were increasing, per capital total expenditure, per capital current expenditure and per capital development expenditure of PSMC were higher than that of average of all Nepalese Municipalities, which was satisfactory although there seems larger scope for increment.

Gurung (2004) has conducted a research on Financial Implication of the Proper Management of Recycle able / Reusable waste, a case study of PSMC. The basic objectives of the study was to analyze the present status, composition, possible financial contribution, possible contribution to local household income and financial implication of proper management of Recycle able / Reusable waste. She has concluded that, more volume of municipal

waste was generated from the core area in Pokhara, waste management service rendered by PSMC to public at present has not been properly developed yet. She also conclude that people of Pokhara have not become aware of recyclable / reusable waste management system and people have to developed in their composting habit PSMC itself is not strictly monitoring the private party for collection, purchase and sale of recycle/reusable waste at house hold level. Due to less collection, purchase and sale R/RW, minimum quantity of R/RW has been exported out of Pokhara. She recommended that, PSMC should launch more public awareness program and training program about composting and R/RW management in the core area, should established good institutional arrangement for waste management. PSMC should emphasize the private party to collect paper/ carton in core area.

2.2.2 Review of Book and Articles:

Poudyal (1998) published a book named 'Corporate Tax Planning in Nepal '. The book is depended basically on research information and found very essential to gain conceptual knowledge of tax planning. He discussed relevant theoretical aspects of tax planning in book. Corporate tax structure of Nepal, Strategic planning, project and operational planning are clearly maintained in descriptive manner. Although the book has not focused on remuneration aspect, it is found vary much useful to anyone who is interested in the subject of taxation.

Mahat (2001) has prepared a report for Municipal Association of Nepal (MUAN) on the topic of "Documenting the State of Municipal Revenues and Expenditures in Selected Municipalities of Nepal." The objectives of this report are to assess the status of municipal resource mobilization in the country and suggest a framework for plan of actions in the field of municipal resource mobilization and capacity building needed for the same. He has

recommended that, to improve structure of local sources and administration procedures to improve efficiency and equity, focus on most sources with most potential, high and buoyant yield relative to costs of collection, introduce political consultation mechanisms and negotiate with constituents about tax reform at local level. Also, advice to develop a strategic approach to ongoing capacity support and development, which could be an important idea for financial improvement planning in local governments, should form part of an overall organizational reform and development process.

So, this report is very much important to know municipal revenue and expenditure. It suggests for new policy which is necessary to develop for improvement of municipal revenue collection to become strong municipal finance.

Baral (2004) Published a article on the journal 'Economic Literature, vol. - VI' on topic 'Municipal Expenditure and Revenue Structure in Nepal'. In this article Dr. Baral concluded that, after so- called decentralization of the power to the local government through LSA and LSR, the share of municipalities in the government budget implies that is no fiscal decentralization in real sense. The proportion of administrative expenses to the total expenditure of municipalities is relatively high. Thus, the relatively high administrative expenditure suggests the production inefficiency in municipal services. Local development fee has played a role of back bone in municipal revenue structure during the study period. Other local tax and non-tax revenues have a dismal contribution to the municipal revenue. They have to take necessary measures to reduce in risk of financial trouble and to do away the possible jeopardy in urban service Management. So, this article is very much important to know the municipal revenue and their expenditure condition in whole Nepal.

Wagner (2008) has prepared a report for udle/gtz on the topic of "Local Government Finance in Nepal: Current Situation, Challenges and Future Policy". The report mainly focuses on present situation, challenges and future policy of local government finance in Nepal. The report points out that, the need for a re-design of local government finance, taking into account the experience made, proposes an optimal revenue composition of local government, deals with the need for a Local Development Fund (LDF) replacement and policy recommendation on optimal revenue composition for local government optimal local taxation and grant allocation scheme. So, this report is very much useful to know municipal finance.

UDLE/GTZ (2008) prepared a report on topic of "Municipal Finance System in Nepal: Status quo of Revenues, Expenditures and Transfers". The basic objectives of the study are to analyze the present status of revenue, expenditure of Nepalese Municipalities and forecast the future scenarios on Municipal finance. Also, it suggests for improving policy and legal framework about this. This report recommended that, emphasis on public-Private Partnership in municipal assets, explore new areas of revenue generation, formula development for sharing corporate/income tax, value added tax and revenue from land registration. So, this report is very much important to know municipal present financial status.

CHAPTER–III

RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objective of the study. The basic objectives of this study are to analyze the present status of enterprise tax and recommended the remedial measure to improve the tax collection efficiency of PSMC. To meet the objective, following methodology is applied in the study, which is described as below:

3.1 Research Design:

By research design we mean an overall framework or plan for the activities to be undertaken during the course of a research study. The plan is the overall scheme or program of the research. (Wolff and Panta, 1975, p.92) There fore, to achieve the desired end of this study descriptive and analytical research design is applied. Descriptive research design seeks to find out the fact by help of sufficient data and information.

3.2 Justifications for the Selection of the Unit:

Pokhara is a remarkable place for natural beauty and tourist destination. It was declared as a present status of Pokhara Sub-Metropolitan City. It covers an area of 55.66 square km and 200 KM west from Kathmandu, capital city of Nepal.

There are a lot of development programs going on, in this municipal corporation. Because of its natural beauty, favorable climate and comfortable life style the high rate of population migration from near hood VDCs as well as other districts the population no of enterprise also increasing here. Different types of business are running in Pokhara. Pokhara is a Regional headquarter. It has become a central business center. It is also the market of Lekhnath

Municipality and other neighboring VDCs. But the study is only concerned with the business operating within the jurisdiction of PSMC.

3.3 Population and Sample:

For the purpose of this study, population is defined that, the enterprises which are operating in PSMCs area under the PSMC jurisdiction. There are 10210 no of enterprises running in Pokhara. Among the enterprises 3% enterprises is taken as a sample. LSA has classified total enterprises in 19 categories as per its nature. For the purpose of study, enterprises have been classified into eleven categories.

Table 3.1 : Population of the study

S. No.	Types of Enterprise	No	Percent (%)
1.	Commercial Goods	2950	28.89
2.	Hotels and Restaurants	1829	17.91
3.	Bank / Financial Services	155	1.52
4.	Professional Services	914	8.95
5.	Industries	1735	12.28
6.	Hospital/Nursing home & Clinical Services	75	0.73
7.	Educational Institutions	278	2.72
8.	Maintenance/Automotives Services	194	1.90
9.	Communication Services	447	4.38
10.	IT / Computer Services	98	1.02
11.	Other Services	2010	19.69
Total		10210	100

Source: Revenue Section, PSMC Office.

Table 3.2 : Sample Size of the study

S. No.	Types of Enterprise	No	Percent (%)
1.	Commercial Goods	88	28.89
2.	Hotels and Restaurants	55	17.91
3.	Bank / Financial Services	05	1.52
4.	Professional Services	27	8.95
5.	Industries (Including Small Cottage Industries)	38	12.28
6.	Hospital/Nursing home & Clinical Services	02	0.73
7.	Educational Institutions	08	2.72
8.	Maintenance/Automotives Services	06	1.90
9.	Communication Services	13	4.38
10.	IT / Computer Services	03	1.02
11.	Other Services	60	19.69
Total		305	100

3.4 Nature and Sources of Data:

The study is based on primary as well as secondary data. For the study purpose primary data is collection from questionnaire and personal talks with entrepreneurs. PSMC annual reports and journals are the major sources of secondary data. Besides annual reports and journals of PSMC, required data and information is collected from the following sources.

-) Reports and bulletins published by Ministry of Local Development (MDL) of Nepal.
-) Various publications dealing in the subject matter of study.
-) Various articles published in journals etc.
-) Various research report and Dissertations.
-) Municipality Association of Nepal (MUAN) and udle/gtz published reports and their websites.

3.5 Data Collection Procedure:

As stated earlier part of this chapter, the study is based on primary as well as secondary data. Primary data were collected through the administration of structured interview on the of sample entrepreneurs. The questionnaire was designed with the help of top level entrepreneurs and coordination with PCCI. Before starting the field survey, pilot test was carried out. Twenty enterprises of different categories were selected for the pilot test. Edit the previous designed questionnaire after analyzed the help of computer. Considering feedback received from the pilot test the questionnaire was finalized.

After finalizing the questionnaire, interview was administered on the entrepreneurs of sampled enterprises in the months of Ashoj/ Kartik. Every sampled enterprise was visited individually. Secondary data were collected from the Revenue Section of PSMC, FNCCI, udle/gtz and MUAN publications.

3.6 Data Processing:

The filled out questionnaires were edited, after completion of the structured interview with the owners of the sampled entrepreneurs. Then responses were coded and data were entered into the computer sheet. The responses of the different respondents were counted with the help of function command of Microsoft Excel program. All the processing work was done using computer. After analyzing the primary information and secondary data, they were tabled and processed according to the need and objectives of this study.

3.7 Methods of Data Analysis:

The study is based on descriptive and analytical research design. So, there is no complicated statistical tools have been used in this study. Only, percentages, averages, correlation and trends analysis have been used to analyze the data. Various types of charts, graphs and figures are used to make the presentation clear.

CHAPTER–I

INTRODUCTION

1.2 Background of the Study:

Nepal is a under developed land locked diversified country situated between two large countries China and India. This country is divided into five Development Regions and three geographic regions to ensure proper and balanced economic and physical development activities. The country is also divided in to 14 Zones and 75 Districts for political and administrative purpose. Each district has been further divided into smallest administrative units called Village Development Committee (VDC)'s. and Municipalities. Recently, there are 3915 VDCs and 58 Municipalities.

Now a day, after the people's movement 062/63, the country has been declared as Federal Republic Country from a Monarchy. The new constitution is going to be written by newly elected constitutional assembly. So it is not clear how many state and what types of system will be developed. Only after finalizing the new constitution will decide these matters. Till now there are two types of government existing in Nepal. The first is the central government and next is the local government. District Development Committee (DDC), Municipalities and VDCs are the bodies of local government. Government has assigned Pokhara as a head quarter for various responsibilities for the administrative and development of local Areas. Pokhara Sub-Municipal Corporation (PSMC) situated southern foot of Annapurna Himalayan Range, which is the middle hill of the Western Development Region of Nepal. It is a remarkable place for natural beauty at an altitude of 827m from the sea levels and 200 KM west of Capital city Kathmandu. This city is ever known as a real paradise in Earth. The valley is filled with swift flowing linear and dotted with

clear gleaming lakes. A 140KM of panoramic Himalayan ranges seem close enough to be touched. The serenity from the nature can not only be touched but also be felt. In 1958(2015BS), it is formally declared as a municipality and resumed into Town Panchayat in 1966(2022 BS). Designation of Pokhara as the headquarter of the western Development Region of Nepal in 1972(2029 BS) contributed to upgrade it into the present status of Sub-Municipal Corporation in 1996(2052 BS). The total area of the municipality is 56.55 sq. KM. Its census population is 214,226 and estimated household is 41000. (Brochure of PSMC, 2007)

There are a lot of development programs going on, in this municipal corporation. Because of its natural beauty, favorable climate and comfortable life style the high rate of population migration from surrounding VDC's as well as other districts. The no of enterprises are also increasing here. In fiscal year 066/067, there are 10,210 no of enterprises as per its nature. PSMC have been facing so many different challenges. The population of PSMC increasing rapidly and urban people are expecting more and more urban facilities for their sophisticated life style. Municipal should effectively mobilize local resources to overcome the financial crisis. PSMC gets revenue from taxes fees, and grant from different sources.

Tax is a compulsory exaction of money by public authority for public purpose enforceable by law and is not a payment for service rendered. Thus tax charged by the government on income, property or expenses of an individual or group of individuals and taxation is a device or process of imposing tax. Therefore, taxation is considered as a powerful instrument of government for raising revenue in Nepal. Income taxes, property tax, business profit taxes are direct taxes and customs, excise, enterprise tax, are indirect ones. (Manandhar, 2001, p.2)

Local tax is the tax imposed by local governments. It is not a single but group of taxes. The main variant of local taxes is property tax, which means a tax imposed by local body on the value of property located within the jurisdiction of that local body. The other variants are vehicle tax, business tax, user charges etc. The authority to collect the revenue to local bodies is given to provide real autonomy to them since no autonomy can be felt without sufficient self- mobilized revenue. (Kandel, 2003.p11)

Enterprise tax is indirect tax which is imposing annually under Local Self Governance Act (LSA). It is one of the most reliable sources of municipality. The contribution of the enterprise tax is only average 3.30% there fore PSMC is trying to enlarge its boundary and doing work over there this kind of tax is levied upon the pursuit of particular profession. Many types of Enterprises are being run in urban areas. They use various types of municipal services. So the local government can impose the tax on enterprise on the basis of capital investment and turnover or at fixed rate.

Tax zone is an impoverished area in which business are exempt from certain taxes and are given other economic advantages as an inducement to locate there and employ residents. (www.thefreedictionary.com)

1.2 Focus of the Study:

Financial aspect is the most vital aspect of every organization, whether it is profit oriented or service oriented like Municipal Corporation. Any operational activities, programs remain only on paper without management of financial aspect. Urban people are expecting more urban services/facilities. So, PSMC have to fulfill those demand by providing numerous facilities. To meet the expectation PSMC needs their own regular financial sources. Municipal has to mobilize local sources effectively to over come financial crisis. Enterprise tax is

one of the local taxes among them. The study aims to analyze enterprise tax collection efficiency, collection trend, tax payer attitude, present status of enterprise tax of PSMC. Thus, whole energy and effort concentrate on analysis of enterprise tax by using descriptive and analytical research design, during the period of ten years starting from F/Y 2057/058.

1.3 Statement of the problem:

Now a day's urban population growth is going higher and higher. Those urban people are expecting more urban facilities. Municipalities have to fulfill those demands by developing and providing numerous urban facilities. To meet people's expectation, corporation needs their own regular financial sources. In the past octroi was the main source of finance for municipalities. After abolition of octroi local self governance act (LSA) was implemented and it introduces the local development tax (LDT). LSA has empowered municipals to collect the house land tax, integrated property tax, rent tax, vehicle tax, entertainment tax, advertisement tax, enterprise tax etc. but those taxes have contributed in low level. There fore, Municipal corporations are suffering from financial problem.

The population of PSMC increasing rapidly and urban people are expecting more urban facilities, for their sophisticated life style. Municipality needs to mobilize local resources effectively to overcome the financial crisis. Therefore, the study focuses on how the Enterprise tax yield can be improved and financial crisis done away basically in case of PSMC. It also tries to solve the following research problems.

- IX. What is the contribution trend of enterprise tax to total revenue of PSMC?
- X. What is the collection efficiency of enterprise tax in PSMC?
- XI. What is the present enterprise tax collection procedure?

- XII. What is the attitude of enterprise tax payers in PSMC?
- XIII. What are the expectations of tax payer against their contribution?
- XIV. In how many tax zones should PSMC be divided for enterprise tax?
- XV. Where will be the appropriate venue for collecting the enterprise tax?
- XVI. What will be the remedial measures to increase the enterprise tax yield?

1.4 Objectives of the Study:

The basic objective of the study is to analyze the present status of enterprise tax and suggest PSMC to improve the collection efficiency and procedure of enterprise tax. The specific objectives of the study are as follows,

- i) To understand the attitude of enterprise taxpayers.
- ii) To evaluate the collection efficiency of enterprise tax yield.
- iv) To analyze the collection and trend of enterprise tax to the revenue of PSMC.
- iv) To analyze the current enterprise tax collection system.
- v) To explore the expectation of taxpayers against their contribution.
- vi) To analyze the opinions of taxpayers about the tax zones.
- vii) To analyze the opinions of tax payers about enterprise tax collection venue.
- viii) To provide the suggestions to PSMC to improve the enterprise tax yield.

1.5 Significance of the Study:

The study is concerned with the enterprise tax of PSMC, revenue generation from local financial autonomy of municipalities. In this threatening situation, study on enterprise tax in PSMC may be instrument / helping hand for municipalities to mobilize/generate the resources through this tax. Therefore, the study has its own existence. It will help all concerned people, government,

political parties to understand the enterprise tax procedure of PSMC. This also helps to show the trend of enterprise tax. So, it will provide essential information to the interested parties and concerned authorities. Moreover, study will be helpful for PSMC to check out the management plan for the collection of enterprise tax. Therefore, the study about the enterprise tax was considered desirable.

1.6 Delimitation of the Study:

The study is based on a case study on enterprise tax of PSMC, which may not represent the overall taxation. Basically the study is limited with in the following factors.

- i. The study is not carrying out in micro level study on enterprise tax due to time and budget constraints.
- ii. The study is limited with in the jurisdiction of PSMC. The study is based mainly on primary data collected from the sample entrepreneurs and secondary data provided by PSMC.
- v. Last 10 years (i.e. 057/058 through 066/067) data is taken into consideration for the study purpose.
- vi. The study is simply a partial fulfillment of MBS degree.

1.7 Organization of the Study:

The study has been divided into five chapters – Introduction, Literature Review, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendations.

The first chapter deals with the backdrops of the study, statement of the problem, objectives, significance and delimitation of the study and

organization of study. The second chapter reviews the enterprise tax, historical background of the enterprise tax in Nepal, procedure of collecting enterprise tax and the dissertations as well as related journals and reports. The third chapter deals with data plan, study area, sample frame and sample, data collection, pilot test, data mining and analysis techniques. Basically this chapter focuses the methodologies followed in the study.

The fourth chapter is the heart of the study and presents the primary and secondary data. This chapter presents the analysis of awareness of taxpayer about the enterprise tax, attitude of tax payers and payment of enterprise tax. It also analyses the contribution of enterprise tax to the revenue of PSMC and its trend. The last chapter summarizes the whole study and draws the conclusion which recommends improving the collection efficiency of enterprise tax.

CHAPTER–II

LITERATURE REVIEW

This chapter presents the theoretical framework and research review. The former section presents the relevant theoretical aspects of the study and latter deals with related research report.

2.1 Conceptual Review

This section deals with the concepts of local taxation, history of local tax including enterprise tax in Nepal, rationale of enterprise tax, autonomy in the enterprise tax along with existing procedure of collecting enterprise tax.

2.1.1 Concept of Taxation

Tax is a compulsory monetary contribution to a state by its residents without getting corresponding benefits of service or goods from the government. The government of any country needs adequate budget to run administrative/development activities. The government through various sources collects the revenue. Tax is the major sources of government revenue.

Seligman has defined tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

According to **Plehn**, taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states.

“A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer return and not imposed as penalty for any legal offence”. – Dalton

“Tax is a compulsory payment to the government without exception of direct expenses of direct return as benefit to the tax payers.” – Taylor

“A tax is a compulsory contribution of wealth of person or body of persons for the service of public powers”. – Bastable

From the above definition, it is clear that tax is imposed on the person by the government according to the laws of the country. If the person on whom tax is imposed does not pay, law will punish him. The government does not provide any corresponding benefits to a state by its residents for which the state provides security of them.

Tax is classified in to two categories i-e Direct and Indirect. “A direct tax is really paid by the person on whom it is legally imposed.”- Dr. Dalton

The person paying and bearing tax is same in direct tax. Income tax, property tax, land tax, Interest tax, enterprise tax, gift tax etc. are the example of direct tax.

“Indirect tax is imposed on one person but paid partly or wholly by another”. – Dr. Dalton. Value added tax, import/export/excise duties, hotel tax etc. are the examples of indirect taxes where the person paying and bearing tax is different. (Kandel, 2003.p11)

2.1.1.1 Concept of Local Taxation:

Local tax is the tax imposed by local governments. It is not a single but group of taxes. The main variant of local taxes is property tax, which means a tax imposed by local body on the value of property located within the jurisdiction of that local body. The other variants re vehicle tax, business tax, user charges etc. The authority to collect the revenue to local bodies is given to provide real

autonomy to them since no autonomy can be felt without sufficient self-mobilized revenue. (Kandel, 2003.p11)

According to MC–master, local taxation has interpreted in three ways.

- IV. Taxes which municipalities impose by their own legislation and which they assess and / or collected,
- V. Taxes levied under national legislation but with tariffs determined by municipalities (either freely or with in statutory limits) and,
- VI. Taxes which are levied and administered by central government but whose proceeds are given to shared with, or surcharged by municipalities. (Jemes,1994.p 25)

In Nepal, local government itself can not levy the taxes to the residents and entrepreneurs. GON should empower the local authority to levy different type's local taxes. Municipal council only can determine the rate o taxes with in the statutory limits provided by the legislation. LSA has empowered the municipalities to impose land revenue and house land tax, vehicle tax, enterprise tax and collect parking charge, service charge etc. LSR has provided the statutory limits of local taxes. So, municipalities have determined the rate of taxes with in statutory limits. (Manandhar, 2001.p 8)

2.1.1.2 Categories of Local Taxation:

Income tax is almost invariably a major national government tax source. There are number of ways in which local governments in different parts of the world derive revenue from the taxation of income. The local authority can impose the following local taxes.

Separate local income taxes: Local authority can impose separate income taxes distinct from national income tax. Local authorities in Finland have this

power. The taxpayers have to pay the tax on their income to the federal and state governments.

Surcharge on national income tax: It is a common system for local authorities to impose a surcharge on the national income tax. Local authorities in Japan and a number of European countries – Belgium, Denmark, Italy, Norway, Sweden and Switzerland have this power. Law may fix the rate of surcharges. Surcharge is normally a flat percentage rate charged on taxable income. Tax on house rent is the example of surcharge in Nepalese context.

Assignment of national income tax: In several countries, the central government assignment assigns to local authorities a fixed percentage of the national income tax collected. Turkey, South Korea, Philippines and the Federal Republic of Germany have such law.

A Tax on Enterprise: A tax, which is imposed upon the pursuit of a particular enterprise (such as, medicine or the law), is called enterprise tax. In certain countries have this power to local authorities. The tax may consist of a percentage applied to payroll or turnover or, alternatively a fixed rate for each enterprise.

Mass Personal taxes: In some developing countries, local authorities have levied a general personal tax on the lower segments of income which fall below the point at which liability for national income tax begins. This has operated in countries where only a relatively small minority pays national income tax, partly because most income tax administration is not geared to cover a mass of peasant farmers, small traders and so forth. These taxes have operated in tropical Africa, where traditions of communal land ownership and

shifting cultivation have made land taxation an unsuitable base for mass taxation (James, 1994. p25).

2.1.1.3 Taxes on Expenditure:

This category includes local sale taxes, royalties, entertainment taxes, vehicle taxes and so forth.

Sales of goods: Taxes on sales of goods are normally levied by the central government or by the state level in federation. But the local authority can levy surcharge on sales of goods. About 3000 local authorities in the United States impose a surcharge on state sales tax. Madras Municipal Corporation receives part of similar surcharge. Municipalities in the Netherlands and Philippines receive a share of national sales tax and Brazilian municipalities receive nearly 20 percent of value added tax. A local surcharge on petroleum sales taxes operates some cities in Japan and both north and South America.

Sales of Services: Municipality can impose a local tax on sales of individual services like entertainment including cinemas, theaters and sports, hotels and restaurants and public utilities bills such as electricity, gas and telephone etc. In Nepal, LSA has provided authority to impose entertainment tax to the local authority.

Movement of goods: The tax, which is collected through the equivalent of custom posts on the borders of cities and towns, entering the goods for use, consumption or sale. Such type of tax is known as octroi. Before its abolition, it was a major source of the municipal revenue.

Taxation on Vehicles: A number of countries recognize taxation on vehicle and assign vehicle taxes to municipality authorities. Colombia, Egypt, South

Korea and Spain are examples. In India, Indonesia and Pakistan, taxes on motor vehicles are reserved to state or provincial authorities but local authority tax non-motor vehicles such as bicycles, bullock carts and rickshaws. In Nepalese context LSA has empowered in municipality to collect the vehicle registration and annual vehicle tax and occasional vehicle tax (Jemes,1994.p29).

2.1.2 Historical Background of Enterprise Tax in Nepal:

Municipalities have been collecting some revenue in the forms of taxes and fee since mid of 1960 AD (2017 BS). HMG/Nepal authorized the municipality to impose taxes and fees in 1962 AD (2019 B.S). When the Nagar Panchayat Act 2019 was enforced. Many times the act was amended. HMG/Nepal enforced the Municipality Act in 1991 and repealed the Nagar Panchayat Act. The new act provided municipalities the additional rights on the matter of local.

Nagar Panchayat Act 2019 was the first act that provided the authority to the municipalities to impose local tax although it was in existence since mid of 1960 (2017). Nagar Panchayat Act 2019 was published in " Nepal Gazette" on 4th Bhadra, 2019. Section 39(3) of the act has mentioned about the enterprise tax. As per the act, the municipality can impose tax on specific trade, business or profession within its jurisdiction on the basis of capital investment and transaction. HMG/Nepal enforced the Nagar Panchayat working Management Rules 2020 on 28th Ashwin, 2020. This rule had prescribed the statutory limits of enterprise tax. This rule had made a provision for collection of enterprise tax annually.

After the restoration of the democracy, the democratic government enforced the Municipality Act 2048 on 26 Chaitra, 2048 and repealed the Panchayat act.

According to the new act, HMG/Nepal formulated the Municipality working Management Rules in 2049. This new act and rules empowered the municipalities to impose and collect taxes and fees in the prescribed manner on trades, business or occupations on the basis of the capital investment and turnover” (Manandhar, 2001.p 11-12).

HMG/Nepal enforced the Local Self-Governance Act in 2055. The new act has emphasized the autonomy of the local governments. LSA has empowered municipalities to impose different types of local taxes – land revenue, house and land tax, rent tax, enterprise tax, vehicle tax, property tax, advertisement tax and charges for urban services – parking, electricity, water tape, public telephone, and waste management services on section 136-145. Moreover, it has empowered them to impose different types of fees such as recommendation fee, approval fee, property valuation fee, building permission fee etc. and penalties. It have empowered municipalities to raise loans, with or without pledging any property under their ownership and possession or under or under guarantee given by the government, from a financial institution or any other organizations, approved by the Municipal Council. This act is totally based on upon all the previous acts, which incorporates some additional provisions regarding the local government financial management (Local Self Governance Act 2055).

Government formed local self government regulation on 2056. This regulation emphasized on devolution on necessary power, responsibility and resources to make local bodies capable and effective, encrougement for the evolvment of private sector and devolution of authority to mobilize revenue. It has also prescribed the minimum and maximum limits of the rate that may be impose by municipality. Thus Government has not provided the full fiscal autonomy regarding the enterprise tax issue.

2.1.3 Rationale of Enterprise Tax :

Local government is playing the vital role in the development of the country. The local body should be autonomous and powerful so that they can exploit the factors of production for the development. In municipal sector, the municipalities are playing vital role in development. In any organization, sound financial management is considered the backbone of the whole investment procedures. In this same line, municipality also should have sound sources to generate the required fund so that it can play important role for urban development. Strengthening the municipal finance is very important. It is impossible to meet the growing need of urban service and develop the area in a planned way without the improvement in the financial system.

In Nepalese context, after abolition of octroi, internal sources are not enough even to meet operating expenses of the municipal service. So it is imperative to mobilize the local resources property to meet the financial requirements for urban infrastructure development. The urbanization process is increasing rapidly in Nepal. Consumption of goods and services are also increasing. People are expecting more and more urban facilities for their sophisticated life style. Municipal need to mobilize local sources effectively to over come the financial crisis.

The enterprises are getting sufficient market for their product and services. So, the enterprises should pay the tax to the local authority against their earning. In the same line, enterprises which are operating within the area of municipality use the facilities provided by the municipal government like street light, drainage, parking and solid waste management. So, the enterprises have to pay the enterprise tax against their consumption of urban services.

Various types of enterprises are operating within the area of municipality. On the one side, they provide different types of service to the urban people, on the one side; they also pollute the environment of the area. The local government should invest lots of money for the protection of the environment. It is rationale to levy enterprise tax from the environment protection viewpoint also. So, the enterprise should contribute for the better management of the urban environment.

2.1.4 Procedure of Collection of Enterprise Tax:

Enterprise tax is a direct tax that can be imposed by the municipalities on trade, profession or occupation within its jurisdiction on the basis of capital investment and financial transaction. The process of collecting enterprise tax is different in different municipalities. Municipal board determines enterprise tax rate within the statutory limits for different types of enterprises.

2.1.4.1 Identification of Tax Payers:

PSMC have not any specific method to identify the taxpayers. It includes those enterprises in the tax roll that, who register their enterprises with the Municipality. On the other hand, the Municipality requests the entrepreneurs to register their enterprise if they need any recommendation for business purpose. Then, the Municipality includes them in the tax roll. So, PSMC is unable to identify the taxpayers due to lack of specific policy to update the tax roll. In case of Pokhara a lot of enterprises are operating without registration and without paying enterprise tax in the municipal.

2.1.4.2 Tax Assessment:

In all Municipalities a budget making committee is formed to make its annual budget. Here also, Budget committee prepares the budget of municipality and present to the municipal board. It decides the rates for different enterprises

and forwarded to the municipal council for its approval under the statutory limit of central government. Then Municipal council fixed the rate and revenue section assessment the liabilities for each registered enterprise.

2.1.4.3 Billing of Tax Liabilities:

PSMC have not any mechanism to send the bills for enterprise tax to the tax payers. Entrepreneurs themselves have to pay their due tax at PSMC revenue counter or at their own doorstep when the enterprise tax collection team visits. They know their tax liabilities at the time of payment only. So, PSMC is unable to launch the specific policy to send bill to taxpayers. Now the starting F/Y 066/067, PSMC manage to collect enterprise tax at Pokhara Chamber of Commerce and Industry (PCCI) office. According to new agreement, 30% income provided to PCCI and rest for Municipal Corporation. Due to this new agreement, Municipal is expecting more revenue from enterprise tax.

2.1.4.4 Collection of Taxes:

PSMC collects the enterprise tax at the PSMC revenue counter, doorsteps of taxpayers and also a PCCI office. In reality, no one pay enterprise tax easily. PSMC collects the tax when taxpayers become compelled to clear the tax due to entitle any service from PSMC. If they fail to pay their liabilities within fiscal year, they have to pay fine and penalties in the next fiscal year as per the by laws of PSMC. But in reality, PSMC is not capable to collect even due tax from the registered entrepreneurs. Municipality has assign duties to collect enterprise tax at doorstep by collection team. This team requests the taxpayer for the due tax.

2.1.5 Enterprise Tax Sub-Section in the Organization Structure of Tax Section of PSMC :

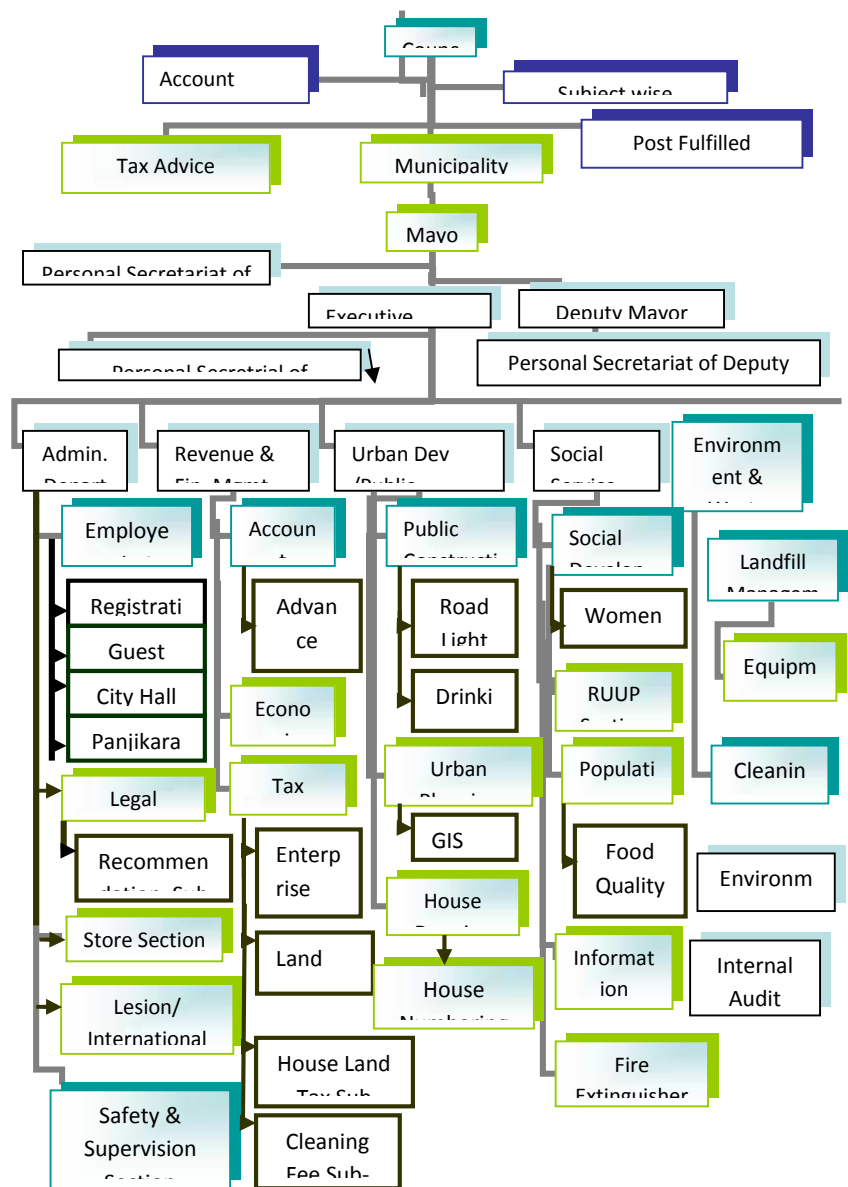
Municipal Council is the highest policy making body and municipal board is the executing body of municipality. Municipal board includes mayors, deputy mayor, and elected ward chairman of each ward committee, two nominated members and executive officer. Executive officer is administrative and secretary of the board. Under executive officer, PSMC has five department, (i) Administrative Department, (ii) Revenue & Financial Management Department, (iii) Urban Development & Public Construction Department, (iv) Social Service Department, (v) Environment and Waste Management Department .

Revenue and Financial Management Department has three Sections– i) Economic Administration Section ii) Economic Promotional Section and iii) Revenue Section. Revenue Section has four Sub -Section – i) Enterprise & Other related tax, ii) Land Revenue Sub- Section iii) house- land tax Sub-Section and iv) Cleaning Fee Section.

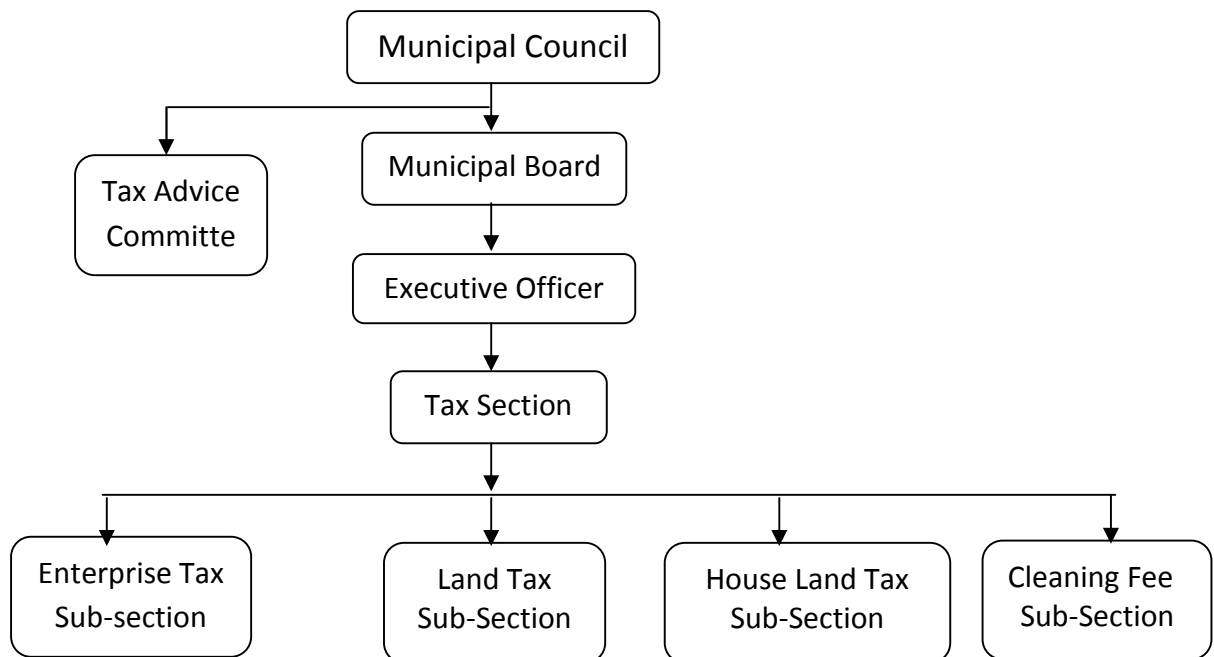
There is doorstep collection team formed by PSMC with one team leader. This team investigates and informs the municipal authority about the enterprise, which is not registered with PSMC. It also confirms whether the entrepreneurs are paying the tax or not.

From the 13th Council meeting it was declared to collect enterprise tax with the partnership of PCCI. Now, it started to collect enterprise tax their too.

Pokhara Sub – Municipal Corporation Existing Organization Structure



Organization Structure of Tax Section



Source: Pokhara Sub-Metropolitan City Office, Pokhara

2.2 Research Review:

This Section presents the review of different dissertations and reports related to municipal finance.

2.2.1 Review of Dissertations:

Manandhar (2001) has conducted a study on the enterprise tax of Pokhara Sub- Municipal Corporation. The basic objective of this study was to analyze the present status of enterprise tax, evaluate the collection and trend, collection efficiency, tax payer's attitude and suggest PSMC to improve the collection efficiency of enterprise tax. The study covered the time period of 12 years from fiscal year 2045/046 through 2056/057. The researcher had concluded that, the trend of enterprise tax is highly fluctuating during the study period. PSMC did not have preferable modes of communication about the enterprise tax and the collection procedure is not suitable for taxpayers. PSMC was not mobilized the collection team effectively. Municipality was not collecting the potential revenue from the enterprise tax because of ineffective

collection procedure and lack of appropriate legal action against defaulters. So, he recommended that municipality should indentify the taxpayer and the tax rolls should be updated yearly. Door steps collection group of the taxpayers should be effectively mobilized to investigate the new entrepreneurs and tax defaulters. Municipality should aware all entrepreneurs about the enterprise tax. PSMC should dispatch the information of tax liability in advance and improve the present tax assessment system. The collection group should be advised to visit each enterprise for investigation and follow up the taxpayers. The researcher has used different statical tools, charts, graphs and figures in the study.

Budhathoki (2002) has done a research of financial Analysis and fore Casting of Pokhara Sub - Municipal Corporation. The study mainly based on Secondary data receive from PSMC office and other related institutions. The study was based on past 13 year's data's. The objectives of the study was carried out financial analysis and forecasting of PSMC. The main objectives was analyze present sources of revenue for next 15 years, trend of the revenue, expenditure and coming future trend analysis. The average contribution of internal sources of revenue is 61 % to the total revenue collection. The average contribution of expenditure of external a source of revenue is 39 % to the total revenue collection. Average recurrent expenditure was 28.19% to the total expenditure. Salary/ remuneration expenditure covered around 49% of the total recurrent expenditure. The average non- current expenditure was 71.81%. In which, construction and maintenance covered 34% and loan and grant covered 54% respectively. The projected internal and external revenue is Rs. 57.39 million and Rs.72.19 million for future years. Total projected revenue was 129.58 million. He concluded that the revenue collection of PSMC was fluctuated over the study period. PSMC was fully dependent to the external sources regarding the financial matters because of the poor

generation of local revenue. Overall financial position of the municipality was fluctuating during the study period. Decreasing trend of recurrent expenditure from 46% to 28% still it is above the normal standard and was recommended to reduce this ratio below 25% of aggregate percentage. So, he was recommended that PSMC should utilize that fund for the urban infrastructure development works. Still PSMC adopting traditional financial data management system, which created so many problems, while carrying out analytical and research work. So, PSMC should hire some financial experts for its financial planning and control to improve its present financial condition.

Dhungana (2003) has conducted a study on Rural- Urban Partnership program, A Case study of PSMC. The researcher has used secondary data. The objectives were, performance analysis, financial pattern of RUPP funded enterprises, financial sustainability of the enterprises and future prospect and existence of RUPP funded enterprises. Researcher had concluded that, the RUPP program has mainly focused to trading enterprises and less for other enterprises like service, manufacturing. The program has provided sufficient information to the target groups about the program objective and activities. She concludes that program has not contributed much to promote the business enterprises to generate the employment and uplift the standard of living of the target group. She recommended that program should motivate its potential entrepreneurs to establish such higher revenue generated enterprises, and program should focus on and within its target group. Researcher also recommended that, RUPP program should initiate to promote new enterprises and also provide them continuous financial support.

Adhikari (2004) has done a research on Financial Analysis of Pokhara Sub - Municipal Corporation. The study was basically based on secondary data as well as some primary data. The research has concentrated on analysis of

relative and absolute financial performance, financial weakness and strength, required suggestions for improvement of financial situation of PSMC that overcome financial crisis. He has conducted that octroi was the major sources of revenue, which covered 89.25% to 95.80% of its own revenue. Revenue of PSMC was fluctuating during the study. PSMC has generated 33.33% to 97.84% revenue from internal sources and 2.16% to 66.76% from external sources. In, average PSMC has raised 81% of revenue from internal source during the observed period. Grant was the major source of external financing. PSMC has raised 11.61% to 99.16% of revenue raised from external source of grant in aid. Although the potential sources of revenue were not fully identified, revenue was always excess over the total expenditure. Expenditure of PSMC was increasing year by year due to the rapid urbanization and extension of level of civic amenities to city dwellers. In the average total expenditure, current expenditure, ordinary capital investment and development expenditure were increasing. The percentage of consumption expenditure to total current expenditure ranges from 42.03% to 74.67%. PSMC's Developmental expenditure was always higher than regular expenditure. Lastly, his findings was revenue of PSMC were increasing, per capital total expenditure, per capital current expenditure and per capital development expenditure of PSMC were higher than that of average of all Nepalese Municipalities, which was satisfactory although there seems larger scope for increment.

Gurung (2004) has conducted a research on Financial Implication of the Proper Management of Recycle able / Reusable waste, a case study of PSMC. The basic objectives of the study was to analyze the present status, composition, possible financial contribution, possible contribution to local household income and financial implication of proper management of Recycle able / Reusable waste. She has concluded that, more volume of municipal

waste was generated from the core area in Pokhara, waste management service rendered by PSMC to public at present has not been properly developed yet. She also conclude that people of Pokhara have not become aware of recyclable / reusable waste management system and people have to developed in their composting habit PSMC itself is not strictly monitoring the private party for collection, purchase and sale of recycle/reusable waste at house hold level. Due to less collection, purchase and sale R/RW, minimum quantity of R/RW has been exported out of Pokhara. She recommended that, PSMC should launch more public awareness program and training program about composting and R/RW management in the core area, should established good institutional arrangement for waste management. PSMC should emphasize the private party to collect paper/ carton in core area.

2.2.2 Review of Book and Articles:

Poudyal (1998) published a book named 'Corporate Tax Planning in Nepal '. The book is depended basically on research information and found very essential to gain conceptual knowledge of tax planning. He discussed relevant theoretical aspects of tax planning in book. Corporate tax structure of Nepal, Strategic planning, project and operational planning are clearly maintained in descriptive manner. Although the book has not focused on remuneration aspect, it is found vary much useful to anyone who is interested in the subject of taxation.

Mahat (2001) has prepared a report for Municipal Association of Nepal (MUAN) on the topic of "Documenting the State of Municipal Revenues and Expenditures in Selected Municipalities of Nepal." The objectives of this report are to assess the status of municipal resource mobilization in the country and suggest a framework for plan of actions in the field of municipal resource mobilization and capacity building needed for the same. He has

recommended that, to improve structure of local sources and administration procedures to improve efficiency and equity, focus on most sources with most potential, high and buoyant yield relative to costs of collection, introduce political consultation mechanisms and negotiate with constituents about tax reform at local level. Also, advice to develop a strategic approach to ongoing capacity support and development, which could be an important idea for financial improvement planning in local governments, should form part of an overall organizational reform and development process.

So, this report is very much important to know municipal revenue and expenditure. It suggests for new policy which is necessary to develop for improvement of municipal revenue collection to become strong municipal finance.

Baral (2004) Published a article on the journal 'Economic Literature, vol. - VI' on topic 'Municipal Expenditure and Revenue Structure in Nepal'. In this article Dr. Baral concluded that, after so- called decentralization of the power to the local government through LSA and LSR, the share of municipalities in the government budget implies that is no fiscal decentralization in real sense. The proportion of administrative expenses to the total expenditure of municipalities is relatively high. Thus, the relatively high administrative expenditure suggests the production inefficiency in municipal services. Local development fee has played a role of back bone in municipal revenue structure during the study period. Other local tax and non-tax revenues have a dismal contribution to the municipal revenue. They have to take necessary measures to reduce in risk of financial trouble and to do away the possible jeopardy in urban service Management. So, this article is very much important to know the municipal revenue and their expenditure condition in whole Nepal.

Wagner (2008) has prepared a report for udle/gtz on the topic of "Local Government Finance in Nepal: Current Situation, Challenges and Future Policy". The report mainly focuses on present situation, challenges and future policy of local government finance in Nepal. The report points out that, the need for a re-design of local government finance, taking into account the experience made, proposes an optimal revenue composition of local government, deals with the need for a Local Development Fund (LDF) replacement and policy recommendation on optimal revenue composition for local government optimal local taxation and grant allocation scheme. So, this report is very much useful to know municipal finance.

UDLE/GTZ (2008) prepared a report on topic of "Municipal Finance System in Nepal: Status quo of Revenues, Expenditures and Transfers". The basic objectives of the study are to analyze the present status of revenue, expenditure of Nepalese Municipalities and forecast the future scenarios on Municipal finance. Also, it suggests for improving policy and legal framework about this. This report recommended that, emphasis on public-Private Partnership in municipal assets, explore new areas of revenue generation, formula development for sharing corporate/income tax, value added tax and revenue from land registration. So, this report is very much important to know municipal present financial status.

CHAPTER–III

RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objective of the study. The basic objectives of this study are to analyze the present status of enterprise tax and recommended the remedial measure to improve the tax collection efficiency of PSMC. To meet the objective, following methodology is applied in the study, which is described as below:

3.1 Research Design:

By research design we mean an overall framework or plan for the activities to be undertaken during the course of a research study. The plan is the overall scheme or program of the research. (Wolff and Panta, 1975, p.92) There fore, to achieve the desired end of this study descriptive and analytical research design is applied. Descriptive research design seeks to find out the fact by help of sufficient data and information.

3.2 Justifications for the Selection of the Unit:

Pokhara is a remarkable place for natural beauty and tourist destination. It was declared as a present status of Pokhara Sub-Metropolitan City. It covers an area of 55.66 square km and 200 KM west from Kathmandu, capital city of Nepal.

There are a lot of development programs going on, in this municipal corporation. Because of its natural beauty, favorable climate and comfortable life style the high rate of population migration from near hood VDCs as well as other districts the population no of enterprise also increasing here. Different types of business are running in Pokhara. Pokhara is a Regional headquarter. It has become a central business center. It is also the market of Lekhnath

Municipality and other neighboring VDCs. But the study is only concerned with the business operating within the jurisdiction of PSMC.

3.3 Population and Sample:

For the purpose of this study, population is defined that, the enterprises which are operating in PSMCs area under the PSMC jurisdiction. There are 10210 no of enterprises running in Pokhara. Among the enterprises 3% enterprises is taken as a sample. LSA has classified total enterprises in 19 categories as per its nature. For the purpose of study, enterprises have been classified into eleven categories.

Table 3.1 : Population of the study

S. No.	Types of Enterprise	No	Percent (%)
1.	Commercial Goods	2950	28.89
2.	Hotels and Restaurants	1829	17.91
3.	Bank / Financial Services	155	1.52
4.	Professional Services	914	8.95
5.	Industries	1735	12.28
6.	Hospital/Nursing home & Clinical Services	75	0.73
7.	Educational Institutions	278	2.72
8.	Maintenance/Automotives Services	194	1.90
9.	Communication Services	447	4.38
10.	IT / Computer Services	98	1.02
11.	Other Services	2010	19.69
Total		10210	100

Source: Revenue Section, PSMC Office.

Table 3.2 : Sample Size of the study

S. No.	Types of Enterprise	No	Percent (%)
1.	Commercial Goods	88	28.89
2.	Hotels and Restaurants	55	17.91
3.	Bank / Financial Services	05	1.52
4.	Professional Services	27	8.95
5.	Industries (Including Small Cottage Industries)	38	12.28
6.	Hospital/Nursing home & Clinical Services	02	0.73
7.	Educational Institutions	08	2.72
8.	Maintenance/Automotives Services	06	1.90
9.	Communication Services	13	4.38
10.	IT / Computer Services	03	1.02
11.	Other Services	60	19.69
Total		305	100

3.4 Nature and Sources of Data:

The study is based on primary as well as secondary data. For the study purpose primary data is collection from questionnaire and personal talks with entrepreneurs. PSMC annual reports and journals are the major sources of secondary data. Besides annual reports and journals of PSMC, required data and information is collected from the following sources.

-) Reports and bulletins published by Ministry of Local Development (MDL) of Nepal.
-) Various publications dealing in the subject matter of study.
-) Various articles published in journals etc.
-) Various research report and Dissertations.
-) Municipality Association of Nepal (MUAN) and udle/gtz published reports and their websites.

3.5 Data Collection Procedure:

As stated earlier part of this chapter, the study is based on primary as well as secondary data. Primary data were collected through the administration of structured interview on the of sample entrepreneurs. The questionnaire was designed with the help of top level entrepreneurs and coordination with PCCI. Before starting the field survey, pilot test was carried out. Twenty enterprises of different categories were selected for the pilot test. Edit the previous designed questionnaire after analyzed the help of computer. Considering feedback received from the pilot test the questionnaire was finalized.

After finalizing the questionnaire, interview was administered on the entrepreneurs of sampled enterprises in the months of Ashoj/ Kartik. Every sampled enterprise was visited individually. Secondary data were collected from the Revenue Section of PSMC, FNCCI, udle/gtz and MUAN publications.

3.6 Data Processing:

The filled out questionnaires were edited, after completion of the structured interview with the owners of the sampled entrepreneurs. Then responses were coded and data were entered into the computer sheet. The responses of the different respondents were counted with the help of function command of Microsoft Excel program. All the processing work was done using computer. After analyzing the primary information and secondary data, they were tabled and processed according to the need and objectives of this study.

3.7 Methods of Data Analysis:

The study is based on descriptive and analytical research design. So, there is no complicated statistical tools have been used in this study. Only, percentages, averages, correlation and trends analysis have been used to analyze the data. Various types of charts, graphs and figures are used to make the presentation clear.

CHAPTER–IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation of data collected from the different sources. The purpose of this chapter is to study evaluate, present and analyze the data collected from both primary and secondary sources of enterprise tax of PSMC.

4.1 Data Presentation and Analysis:

The data collected from different sources has been refined and documented in Excel tables, which are further processed to analyze and arrive at the findings on the enterprise tax situation of Pokhara.

4.1.1 Trend of Total Revenue:

Budgeted and actual collection of total revenue of PSMC has been analyzed here. Table 4.1 shows the situation of the total revenue.

Table 4.1: Budgeted and Actual Tax Yield

(In Thousand Rs)

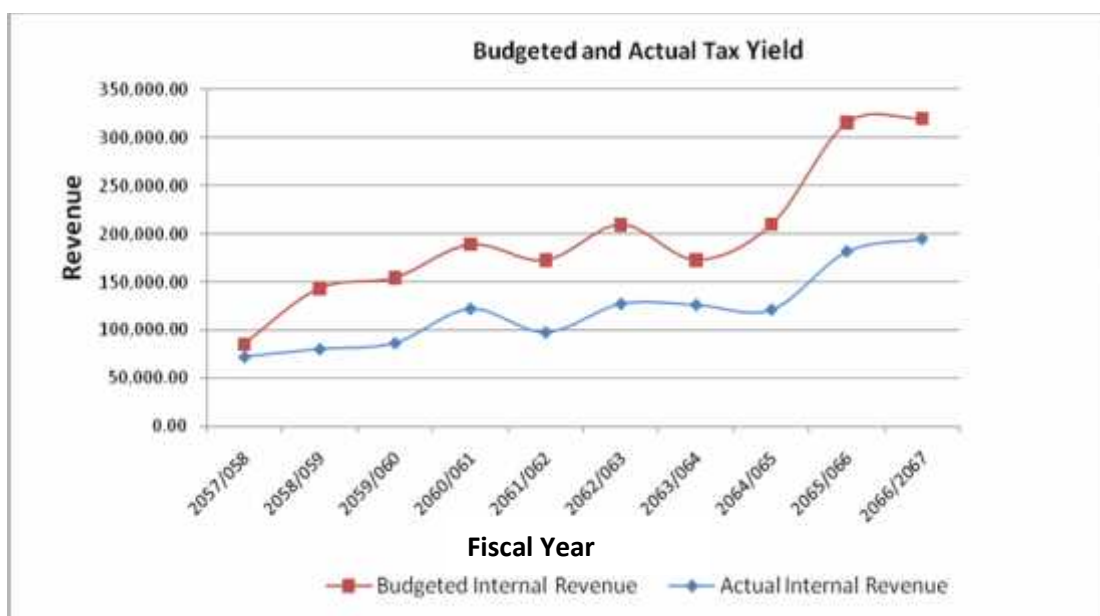
Fiscal Year	Total Internal Revenue		Progress (%)
	Budgeted	Actual	
2057/058	72,437.50	13,726.32	18.95
2058/059	80,508.00	63,338.89	78.67

2059/060	86,702.37	68,218.37	78.68
2060/061	122,329.60	67,088.94	54.84
2061/062	97,935.00	75,068.63	76.65
2062/063	127,500.00	82,574.21	64.76
2063/064	126,359.75	47,070.11	37.25
2064/065	121,536.00	89,211.37	73.40
2065/066	182,010.00	133,998.00	73.62
2066/2067	194,964.00	125,153.52	64.19

Source: Revenue Section, PSMC

From the above table it clearly shows that the scenarios of budgeted and actual total tax yield. Fiscal year 2058/058 & 2059/060 had highest progress achievement that was 78.67 % and 78.68 %. The lowest achievement was 18.95 % in fiscal year 2057/058.

Figure 4.1: Trend of Total Internal Revenue



Above chart shows that, the trend line of total internal revenue of PSMC. In fiscal year 2059/60 the highest progress was obtained over budgeted revenue and year 2057/058 lower progress was obtained at 18.95 %.

4.1.2 Trend of Enterprise Tax:

Collection trend of enterprise tax has been analyzed on the basis of enterprise tax revenue of last 10 Years of PSMC. Here table 4.2 shows the trend of enterprise tax in PSMC.

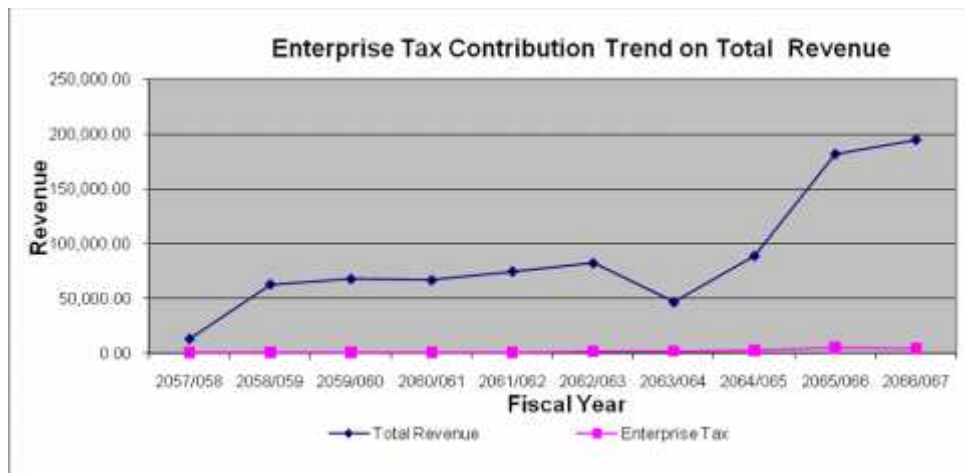
Table 4.2: Enterprise Tax Collection Trend and its Contribution on Total**Revenue****(In thousand Rs.)**

Fiscal Year	Total Tax Revenue	Enterprise Tax	Percentage Contribution
2057/058	13,726.32	1085.19	7.91
2058/059	63,338.89	1,362.44	2.15
2059/060	68,218.37	1,350.06	1.98
2060/061	67,088.94	1,266.22	1.89
2061/062	75,068.63	1,441.70	1.92
2062/063	82,574.21	1,859.01	2.25
2063/064	47,070.11	2,470.05	5.25
2064/065	89,211.37	2,888.34	3.24
2065/066	182,010.00	5,807.40	3.19
2066/067	194,964.00	5,015.90	2.57

Source: Revenue Section, PSMC

From the above table it shows that, the percentage contribution over total tax revenue of enterprise tax yield. The scenario shows the fluctuating condition of revenue collection. In fiscal year 2057/058 was the highest percentage contribution (7.91%). The minimum contribution was 1.89 % in fiscal year 2060/061.

Figure 4.2: Enterprise Tax Contribution on Total Revenue



The above trend line shows that, the trend of total revenue and enterprise tax yield. The trend line shows the fluctuating condition of revenue collection. In fiscal year 2057/058 was been the highest percentage contribution (7.91%) and the minimum contribution was 1.89 % in fiscal year 2060/061.

4.1.3 Potentiality of Enterprise Tax:

Enterprise tax may be the major sources of the most of the municipality. Like wise, it is also an important source of PSMC. Gradually the numbers of enterprises are increasing in the urban area. There are 10,210 enterprises in operation within its jurisdiction of PSMC. For the study, it was classified in eleven different groups as per its nature and homogeneity. Local Self Governance Regulation (LSR) 2056 and its second rectified regulation have prescribed the statutory limit of enterprise tax for local government. The minimum and maximum potential revenue from the enterprise tax is calculated according to the tax rate provided be the regulation. Table 4.3 shows the maximum and minimum potential revenue of PSMC from enterprise tax.

Table 4.3: Potential Revenue from Enterprise Tax

Enterprises	Popu- -lation	Statutory Limits (In Thousands Rs)		Potentiality of Enterprise Tax (In Thousands Rs)	
		Minimum	Maximum	Minimum	Maximum
Commercial Goods	2950	0.75	10	2,212.50	29,500
Hotels & Restaurants	1829	1	50	1,829	91,450
Bank/Financial Service	155	1	50	155	7,750
Professional Services	914	0.36	15	329.04	13,710
Industries	1735	2	10	3,470	17,350
Hospital / Clinical	75	0.5	5	37.50	375
Educational Institutions	278	0.36	3	100.08	834
Maintenance Services	194	1	1.5	194	291
Communication	447	0.36	1.5	160.92	670.50
IT/ Computer Services	98	1	3	98	294
Other Services	2010	0.36	5	723.60	10,050
Total	10210			9,309.64	172,274.50

Source: Appendix 4

From the above table 4.3 shows the potential of collecting revenue from enterprise tax of PSMC. The municipality would be able to collect Rs. 9,309.64 thousand to Rs. 172,274.50 thousands from the registered enterprises as per the rates provided by LSR. But, as mentioned in table 4.2, PSMC is able to collect only Rs. 5,807.40 thousands from the enterprise tax in fiscal year 2065/066. This amount is just 62.38 % of minimum potential revenue. It clearly shows that PSMC is not exploring the possible revenue from the enterprise tax.

4.1.3 Collection Efficiency of Enterprise Tax:

Most of the municipalities do not have so good financial situation in Nepal. They are suffering from financial crisis to meet their challenges. Grant provided from government is too small to cope their challenges. In coming year Local development fund (LDF) is also going to be cut by government. In this situation it is very much challenging to run their responsibilities in coming future. LSA gave authority to collect local tax within statutory limit. In this situation enterprise tax can become major source of internal revenue if it increases the tax collection efficiency.

Collection efficiency of tax is defined as the percentage of the collected tax on actual liabilities of the tax. In other words, it is the proportion of collected tax to the total tax liabilities. But PSMC does not update the tax rolls and is still unable to identify the taxpayers. So, data on enterprise tax to be collected are not available, only the data on budgeted and actual is available. In this situation, to determine efficiency budgeted tax can consider as a real tax liabilities. Revenue from enterprise tax and its collection efficiency during the last 10 years are presented below in Table 4.4.

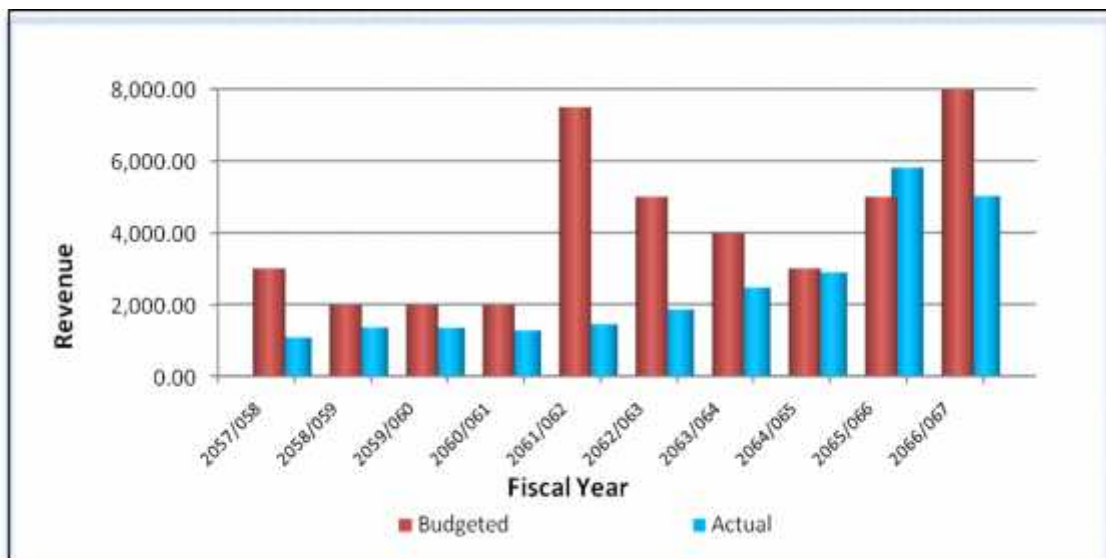
Table 4.4: Budgeted and Actual Enterprise Tax Yield**(In Thousand Rs)**

Fiscal Year	Enterprise Tax		Collection Efficiency (%)
	Budgeted	Actual	
2057/058	3,000.00	1,085.19	36.17
2058/059	2,000.00	1,362.44	68.12
2059/060	2,000.00	1,350.06	67.50
2060/061	2,000.00	1,266.22	63.31
2061/062	7,500.00	1,441.70	19.23
2062/063	5,000.00	1,859.01	37.18
2063/064	4,000.00	2,470.05	61.75
2064/065	3,000.00	2,888.34	96.27
2065/066	5,000.00	5,807.40	116.14
2066/067	8,000.00	5,015.90	62.70

Source: Revenue Section, PSMC

From the table it clearly shows that, collection efficiency of enterprise tax has been fluctuating. In fiscal year 2061/062 was 19.23 %, which is minimum and in 2065/066 collection efficiency was greater, that was 116.14 %, which was greater than its budgeted amount.

Figure 4.3: Budgeted and Actual Enterprise Tax



From the above figure it is clearly shown that, collection efficiency of enterprise tax has been fluctuating. In fiscal year 2066/067 budgeted bar diagram shows the highest point and in fiscal year 058/059, 059/60 shows the minimum. In fiscal year 057/058 actual enterprises tax collection bar diagram reaches minimum and in fiscal year 065/066 reaches highest.

4.1.4 Awareness about Enterprise Tax:

Every entrepreneur has to know about enterprise tax, which is imposed by municipality. Municipality can not collect tax without informing the entrepreneur. To collect tax entrepreneurs have to be aware about the enterprise tax. Therefore PSMC have to inform them but PSMC has not been adopting appropriate media to aware the taxpayers about the enterprise tax. So, it has been tried to find out the level of awareness about enterprise tax. Two questions are asked to entrepreneurs in questionnaire. The first question was whether they have to know or not that they have to pay enterprise tax. The results of the respondents are given below in table 4.5.

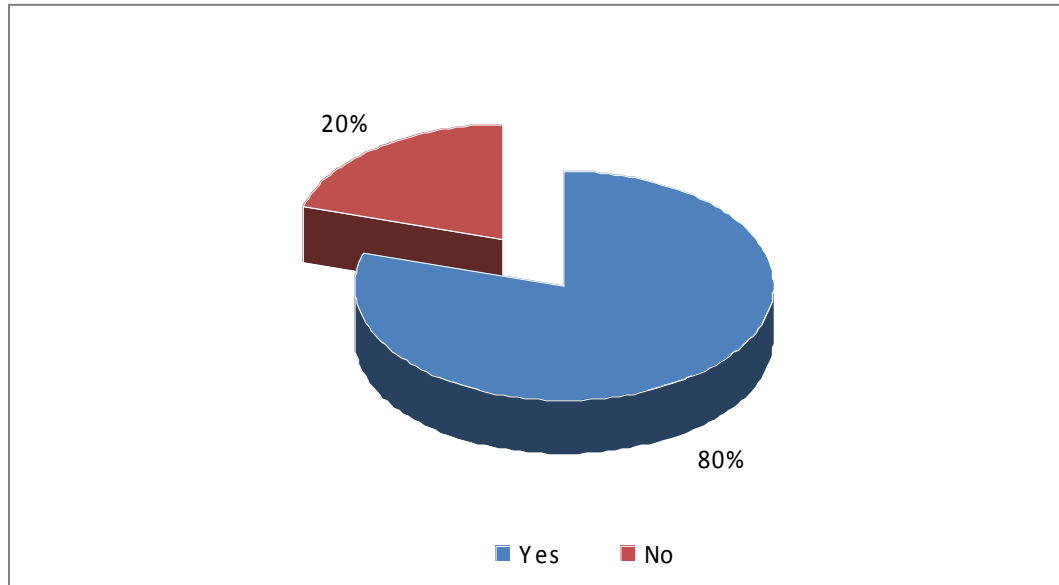
Table 4.5: Awareness of Entrepreneurs about Enterprise Tax

Types of Enterprises	No of Entrepreneurs	Respondents		Awareness Percentage			
		No	%	Yes	%	No	%
Commercial Goods	88	88	28.85	75	85.23	13	14.77
Hotels & Restaurants	55	55	18.03	50	90.90	5	9.1
Bank/Financial Services	05	05	1.64	5	100	0	0
Professional Services	27	27	8.85	22	81.48	5	18.52
Industries	38	38	12.46	32	84.21	6	15.79
Hospital / Clinical Services	02	02	0.66	2	100	0	0
Educational Institutions	08	08	2.62	8	100	0	0
Maintenance Services	06	06	1.97	5	83.33	1	16.67
Communication Services	13	13	4.26	2	15.38	11	84.62
IT/ Computer Services	03	03	0.98	3	100	0	0
Other Services	60	60	19.67	39	65	21	35
Total	305	305	100	243	79.67	62	20.33

Source: Field Survey, 2009.

All the sample populations, 305 responded the question regarding their awareness about the enterprise tax. Out of them, 243 (79.67%) responded that they have to pay the enterprise tax, and rest of 62 (20.33%) responded that they are unknown about it. Among them Communication Services and Other Services have huge volume of unaware population.

Figure 4.4: Awareness about Enterprise Tax



From the above figure it is clearly shown that, 80% entrepreneurs were aware and 20% were unaware entrepreneurs.

In question 2 another question regarding the sources of information about enterprise tax was asked to entrepreneurs. The responses of the entrepreneurs are presented below in Table 4.6.

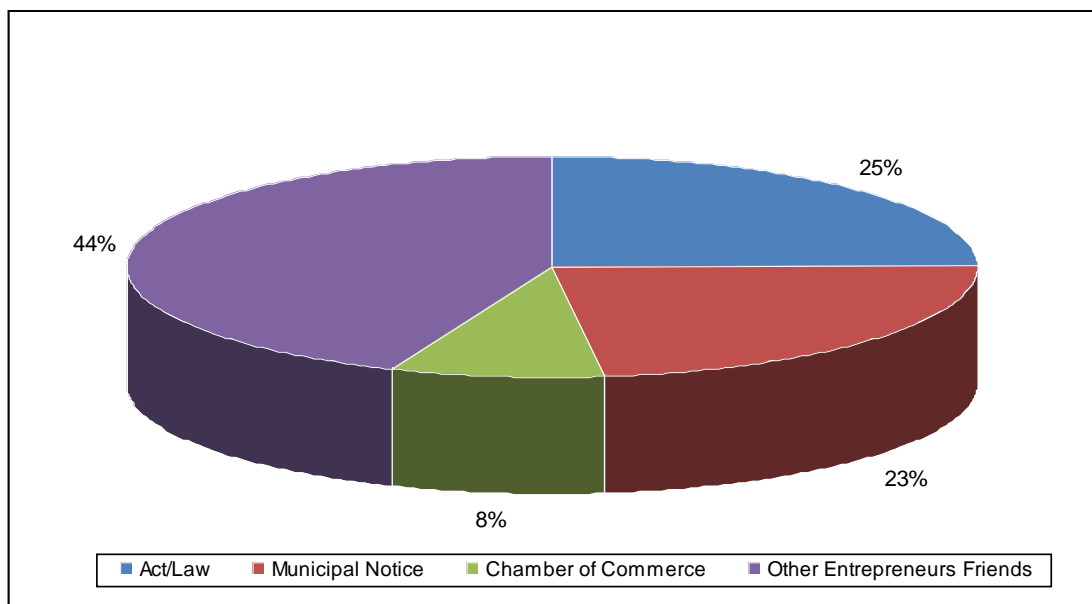
Table 4.6: Sources of Information about the Enterprise Tax

Types of Entrepreneurs	Respondents	Act/ Law	Municipal Notice	Chamber of Commerce	Other Entrepreneurs Friends
Commercial Goods	73	18	17	6	32
Hotels & Restaurants	51	14	10	3	24
Bank/Financial Services	5	0	4	0	1
Professional Services	22	9	10	0	3
Industries	32	4	13	0	15
Hospital / Clinical Services	2	0	2	0	0
Educational Institutions	8	6	1	0	1
Maintenance Services	5	0	0	0	5
Communication Services	2	0	0	0	2
IT/ Computer Services	3	0	1	0	2
Other Services	38	5	15	2	16
Total	241	56	73	11	101
Percentage (%)	100	23.23	30.30	4.56	41.91

Source: Field Survey, 2009

Regarding the sources of information 241 respondents replied about enterprise tax. Out of them, 56(23.23%) responded that they had got information from Act and Law, 73(30.30%) responded that they had got information of enterprise tax from Municipal Notice , 11(4.56%) had got information from Pokhara Chamber of Commerce and Industry(PCCI) and rest of them 101(41.91%) had got information from their colleagues.

Figure 4.5: Sources of Information



From the above figure it is clearly shown that, nearly 44% got information from their entrepreneur friends, 25% got information from act/ law, 23% got information from municipal notice and rest 8% entrepreneurs got information from Chamber of Commerce.

4.1.5 Registration of Enterprise in Municipality:

It is not a compulsion to register an enterprise in municipality by Act. But enterprises who are running in municipal area are required to register in PSMC office. LSA have such authority, so PSMC itself is supposed to find out whether the enterprises running within its jurisdiction are registered or not. During the study period we found there are a lot of enterprises running in Pokhara without registration. Non-registration means either they were not aware or there was no compulsion for them. Therefore, one question regarding the registration was asked to them, only for those entrepreneurs who were aware of the enterprise tax. Table 4.7 presents number of registered and non registered enterprise in PSMC.

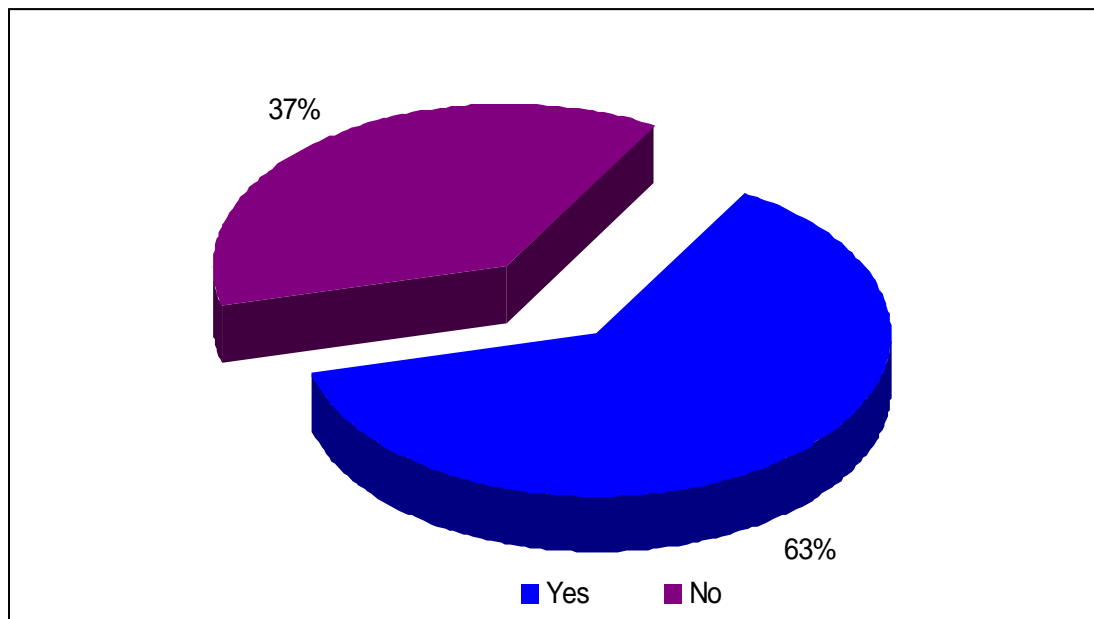
Table 4.7: Registered and Non-registered Enterprises

Types of Enterprises	Sample of Enterprises	Respondent Entrepreneurs	Registered / Non-registered Enterprises			
			Yes	%	No	%
Commercial Goods	88	88	67	76.13	21	23.87
Hotels & Restaurants	55	54	42	77.78	12	22.22
Bank/Financial Service	05	5	0	0	5	100
Professional Services	27	27	17	62.96	10	37.04
Industries	38	38	25	65.79	13	34.21
Hospital / Clinical	02	2	0	0	2	100
Educational Institutions	08	8	7	87.50	1	12.50
Maintenance Services	06	6	5	83.33	1	16.67
Communication	13	13	1	7.69	12	92.31
IT/ Computer Services	03	3	3	100	0	0
Other Services	60	60	24	40	36	60
Total	305	304	191	62.83	113	37.17

Source: Field Survey, 2009

From the above table it is clear that, 191(62.83%) have registered their enterprises out of 304 enterprises and remaining 113(37.17%) do not have. Non-registered enterprises percentage (37.17%) is huge. There fore it is clear that PSMC is not able to bring all the enterprises into enterprise tax boundary. Hence, PSMC is failing to collect potential revenues from there.

Figure 4.6: Registered and Non-registered Enterprises



Above pie chart shows that, 63 % of sampled enterprises were registered with PSMC and rest 37 % enterprises have been running with out registration.

4.1.6 Registration Purpose:

Purposes of enterprises registration in PSMC are different. Some of them register their enterprises in PSMC for payment of local governmental tax, who are conscious about their local tax liabilities. Some entrepreneurs have registered their enterprise on the request of municipality. Other entrepreneurs have registered their enterprises for getting services from municipality. Therefore one question was asked to them regarding the purpose of registration. The clear picture of responses is presented below in table 4.8.

Table 4.8: Purpose of Registration in Municipality

Types	Register	Notice of	Req. for	PSMC Service	Others

of Enterprises		PSMC		Bank Loan		Prohibited			
		No	%	No	%	No	%	No	%
Commercial Goods	67	10	14.92	14	20.90	36	53.73	7	10.45
Hotels & Restaurants	42	13	30.96	8	19.04	18	42.86	3	7.14
Bank/Financial Service	0	0	0	0	0	0	0	0	0
Professional Services	17	3	17.64	0	0	11	64.72	3	17.64
Industries	25	2	8	1	4	22	88	0	0
Hospital / Clinical	0	0	0	0	0	0	0	0	0
Educational Institutions	7	2	28.57	1	14.29	4	57.14	0	0
Maintenance Services	5	0	0	0	0	5	100	0	0
Communication	1	1	100	0	0	0	0	0	0
IT/ Computer Services	3	0	0	0	0	3	100	0	0
Other Services	24	4	16.67	2	8.33	14	58.33	4	16.67
Total	191	35	18.32	26	13.61	113	59.16	17	8.91

Source: Field Survey, 2009

From the above table it is clear that, 35(18.32%) entrepreneurs have registered their enterprises from the notice of PSMC office out of 191 entrepreneurs. 26(13.61%) have registered their enterprises for banking process. Similarly, huge percentage 113(59.16%) have registered them only to prevent cut off of the municipal services and rest 17(8.91%) have registered their enterprises for other reasons.

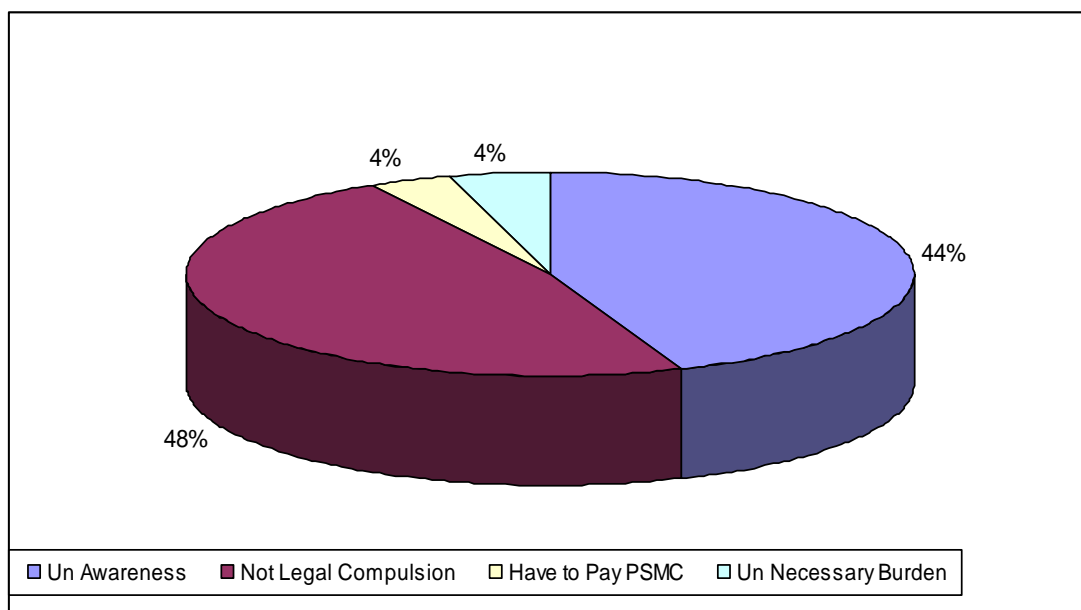
4.1.6 Reasons for not Registration in Municipality:

Other Services	36	18	50	16	44.44	1	2.78	1	2.78
Total	113	50	44.25	54	47.80	4	3.53	5	4.42

Source: Field Survey, 2009

From the above table it is clear that, 50(44.25%) entrepreneurs have not registered their enterprises due to the lack of awareness out of 113 enterprises. 54(47.80%) enterprises have not registered their enterprise with PSMC because of no legal compulsion on there views. Similarly, 4(3.53%) of enterprises have not registered with municipality because they had to pay if they registered and rest 5(4.42%) entrepreneurs did not want to take unnecessary burden.

Figure 4.7: Reasons for not Registration in Municipality



From the above figure it is clearly shown that, 47.80% entrepreneurs did not register their enterprise due to no legal compulsion, 44.25% entrepreneurs did not register their enterprise due to the unawareness about provision. Similarly, 3.53% entrepreneurs did not register their enterprise due to

payment for PSMC and 4.42% entrepreneurs did not register their enterprise due to unnecessary burden.

4.1.7 Payment of Enterprise Tax:

The enterprises which are registered with PSMC and are operating in municipal area have to pay enterprise tax. As above table clearly show that 37.17% enterprises have been running in municipal area without registration. At least the registered enterprises should pay the enterprise tax. In case of PSMC, many enterprises are not registered and those who are registered also are not paying the enterprise tax regularly. For this matter one question was asked for them whether they were paying enterprise tax or not. Table 4.10 presents the situation of enterprise tax payment in PSMC.

Table 4.10: Paying and Not Paying Enterprises Tax

Types of Enterprises	Registered Enterprises	Paying / Not Paying Enterprises Tax			
		Yes	%	No	%
Commercial Goods	67	61	91.04	6	8.96
Hotels & Restaurants	42	37	88.10	5	11.90
Bank/Financial Service	0	0	0	0	0
Professional Services	17	17	100	0	0
Industries	25	25	100	0	0
Hospital / Clinical	0	0	0	0	0
Educational Institutions	7	7	100	0	0
Maintenance Services	5	5	100	0	0
Communication	1	1	100	0	0

IT/ Computer Services	3	3	100	0	0
Other Services	24	18	75	6	25
Total	191	174	91.10	17	8.90

Source: Field Survey, 2009

From the above table it is clearly shown that, 174(91.10%) entrepreneurs have been paying enterprise tax in municipality and rest 17(8.90%) entrepreneurs have not been paying their enterprise tax. Defaulter 8.90% is a huge percentage among registered enterprises.

4.1.7 Enterprise Tax Collection Venue:

PSMC office is collecting enterprise tax in three ways. they are, i) PSMC office, ii) door step of tax payers and iii) Pokhara Chamber of Commerce and Industry (PCCI). For the study purpose one question was asked to the tax payer entrepreneurs about the venue of enterprise tax where they are paying their tax liabilities. The responses are presented below in table 4.11.

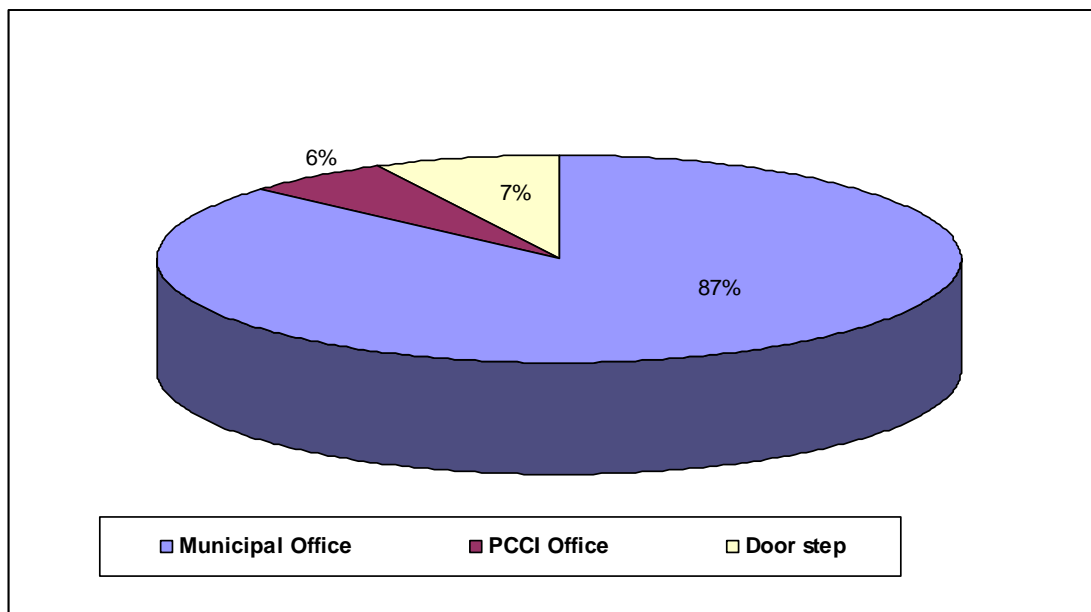
Table 4.11: Enterprises Tax Collection Venue

Types of Enterprises	Tax Paid Entrepreneurs	Municipal Office		PCCI Office		Door step	
		No	%	No	%	No	%
Commercial Goods	61	50	81.97	3	4.92	8	13.11
Hotels & Restaurants	37	31	83.78	2	5.41	4	10.81
Bank/Financial Service	0	0	0	0	0	0	0
Professional Services	17	15	88.23	2	11.77	0	0

Industries	25	25	100	0	0	0	0
Hospital / Clinical	0	0	0	0	0	0	0
Educational Institutions	7	7	100	0	0	0	0
Maintenance Services	5	5	100	0	0	0	0
Communication	1	1	100	0	0	0	0
IT/ Computer Services	3	3	100	0	0	0	0
Other Services	18	14	77.78	3	16.67	1	5.55
Total	174	151	86.79	10	5.74	13	7.47

Source: Field Survey, 2009

From the above table it is shown that, 151(86.79%) enterprises paid their tax liabilities at municipal office. Similarly, 10(5.74%) enterprises paid their liabilities at PCCI office and rest 13(7.47%) paid enterprises tax at their door step. Most of the tax payers paid their tax at municipal office.

Figure 4.8: Enterprise Tax Collection Venue

From the above figure it is clearly shown that, nearly 87% responded that, they have been paying enterprise tax at Municipal office, 7% responded for doorstep and rest 6% responded for PCCI office.

4.1.8 Purpose of Paying Enterprise Tax:

Municipalities have been collecting enterprise tax all over country. PSMC have been collecting enterprise tax to mobilize local resources. Its contribution on total revenue is around 3 to 4 percent. PSMC does not have any particular plan for enterprises against their contribution. Entrepreneurs are not getting any direct benefit from PSMC. PSMC does not inform the entrepreneurs about its utilization and purpose. So, one question was asked to the sample entrepreneurs regarding purpose of paying enterprise tax. The responses are presented below in table 4.12.

Table 4.12: Purpose of Paying Enterprise Tax

Types of Enterprises	Paid Entrepreneurs	To PSMC Dev. Support		PSMC Services User		Aware Citizen		Legal Compulsion	
		No	%	No	%	No	%	No	%
Commercial Goods	61	19	31.14	0	0	28	45.91	14	22.95
Hotels & Restaurants	37	15	40.54	4	10.81	14	37.84	4	10.81
Bank/Financial Service	0	0	0	0	0	0	0	0	0
Professional Services	17	1	5.88	2	11.77	13	76.47	1	5.88
Industries	25	3	12	0	0	19	76	3	12
Hospital/ Clinical	0	0	0	0	0	0	0	0	0
Educational Institutions	7	5	71.43	0	0	2	28.57	0	0
Maintenance Services	5	0	0	1	20	3	60	1	20
Communicatio n	1	1	100	0	0	0	0	0	0
IT/ Computer Services	3	1	33.33	0	0	2	66.67	0	0
Other Services	18	5	27.78	3	16.66	5	27.78	5	27.78
Total	174	50	28.73	10	5.75	86	49.42	28	16.10

Source: Field Survey, 2009

From the above table it shown that, out of 174 entrepreneurs, 50(28.73%) entrepreneurs paid their enterprise tax for the support of PSMC development. Similarly, 10(5.75%) entrepreneurs paid their enterprise tax for the user of PSMC services. 86(49.42%) entrepreneurs, being aware citizen paid their enterprise tax liabilities and rest 28(16.10%) entrepreneurs paid their liabilities by only legal compulsion.

4.1.9 Reason for Not Paying Enterprise Tax:

In Pokhara, 37.17% enterprises have been running with out registration with PSMC. Un-registered enterprises are not paying enterprise tax to municipality. 8.90 % enterprises who have registered with municipality also are not paying enterprise tax. Therefore one question was asked to the respondents, what the reason for not paying enterprise tax is. The responses of not paying enterprise tax are presented below in table 4.13.

Table 4.13: Reason for Not Paying Enterprise Tax

Types of Enterprises	Respondents		Reasons							
			Not enough Profit		Pay for huge tax		No proper Utilization		No Collection Employee	
	No	%	No	%	No	%	No	%	No	%
Commercial Goods	15	16.13	1	6.66	4	26.67	8	53.34	2	13.33
Hotels & Restaurants	14	15.05	4	28.58	1	7.14	8	57.14	1	7.14
Bank/Financial Service	0	0	0	0	0	0	0	0	0	0
Professional	4	4.30	0	0	1	25	1	25	2	50

Services										
Industries	16	17.21	1	6.25	1	6.25	11	68.75	3	18.75
Hospital/ Clinical	2	2.15	0	0	0	0	2	100	0	0
Educational Institutions	1	1.07	0	0	0	0	1	100	0	0
Maintenance Services	1	1.07	0	0	1	100	0	0	0	0
Communicatio n	10	10.76	0	0	2	20	6	60	2	20
IT/ Computer Services	0	0	0	0	0	0	0	0	0	0
Other Services	30	32.26	2	6.67	5	16.67	19	63.33	4	13.33
Total	93	100	8	8.60	15	16.13	56	60.22	14	15.05

Source: Field Survey, 2009

From the above table it shows the clear picture for reasons of not paying enterprise tax. Out of 93 respondents, 8(8.60%) entrepreneurs did not have enough profit to pay such tax. 15(16.13%) entrepreneurs have thought they have to pay huge tax. Similarly, 56(60.22%) entrepreneurs thought that, there is no proper utilization and rest 14(15.05%) entrepreneurs have not paid their enterprise tax liabilities due to the lack of arrival of PSMC employees at door step.

4.1.10 Door Step Enterprise Tax Collection:

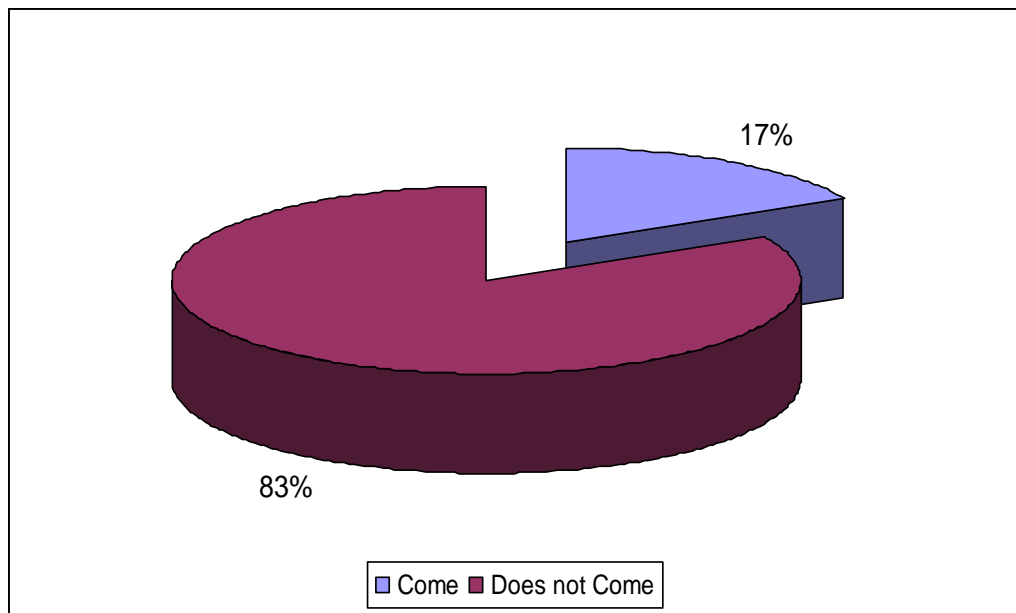
Since some years PSMC formed a collection group to collect the enterprise tax at the doorstep of taxpayers and to investigate the enterprises whether they are registered and paying tax or not. Doorstep collection was not satisfactory during the study. There fore one question was asked to the respondents whether the collection team visited doorsteps of taxpayers or not to collect the tax. The results of the respondents are present below in table 4.14.

Table 4.14: Visit of Doorstep Collection Team

Types of Entrepreneurs	Respondents	Come		Does not Come	
		No	%	No	%
Commercial Goods	88	12	13.64	76	86.36
Hotels & Restaurants	54	24	44.44	30	55.56
Bank/Financial Services	5	0	0	5	100
Professional Services	27	3	11.11	24	88.89
Industries	38	4	10.52	34	89.48
Hospital / Clinical Services	2	0	0	2	100
Educational Institutions	8	0	0	8	100
Maintenance Services	6	0	0	6	100
Communication Services	13	0	0	13	100
IT/ Computer Services	3	1	33.33	2	66.67
Other Services	60	8	13.33	52	86.67
Total	304	52	17.10	252	82.90

Source: Field Survey, 2009

From the above table it is clear that, 52(17.10%) entrepreneurs said that enterprise tax collection team visits their doorstep to collect the tax and 252(82.90%) respondents said that enterprise tax collection team does not visit their doorstep to collect tax. From the above figure, PSMC is lacking to collect doorstep tax collection.

Figure 4.9: Visit of Door Step Collection Team

Above pie chart shown that, 17 % of sampled enterprises said that, door step collection team came to the door step and rest 83 % responded that they do not come at their door step for collection.

4.1.11 Reasons for inefficiency on Enterprise Tax Collection:

During the study period it was clearly seen that, there is inefficiency on enterprise tax collection. Table 4.3 shows the fluctuating scenarios in collection. To explore the reasons for inefficiency one question was asked to the respondents, what were the reasons for inefficiency on enterprise tax collection. The responses are present below in table 4.15.

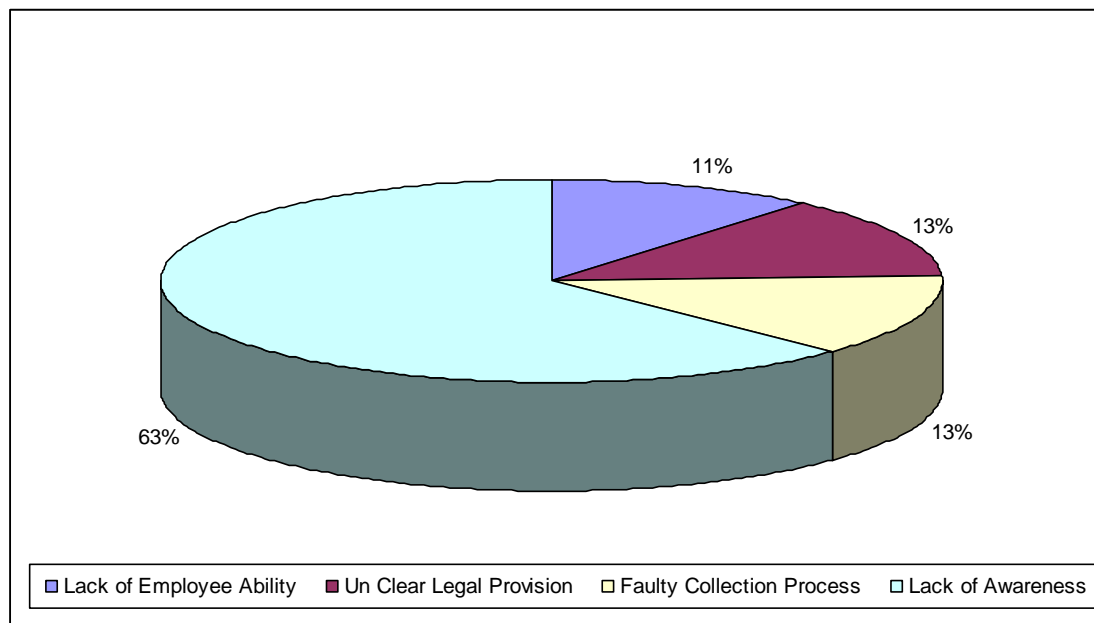
Table 4.15: Reason for inefficiency on Enterprise Tax Collection

Types of Entrepreneurs	Respondents	Reasons							
		Lack of Employee Ability		Un Clear Legal Provision		Faulty Collection Process		Lack of Awareness	
		No	%	No	%	No	%	No	%
Commercial Goods	87	8	9.19	9	10.34	12	13.80	58	66.67
Hotels & Restaurants	52	8	15.39	11	21.15	10	19.23	23	44.23
Bank/Financial Service	5	0	0	0	0	0	0	5	100
Professional Services	26	4	15.38	3	11.54	3	11.54	16	61.54
Industries	38	2	5.27	4	10.52	4	10.52	28	73.69
Hospital/ Clinical	2	0	0	0	0	0	0	2	100
Educational Institutions	8	0	0	2	25	1	12.50	5	62.50
Maintenance Services	6	0	0	1	16.67	1	16.67	4	66.66
Communication	13	2	15.38	1	7.70	0	0	10	76.92
IT/ Computer Services	3	0	0	0	0	0	0	3	100
Other Services	59	9	15.25	8	13.56	8	13.56	34	57.63
Total	299	33	11.04	39	13.04	39	13.04	188	62.88

Source: Field Survey, 2009

The above table shown that, 33(11.04%) entrepreneurs said that, enterprise tax collection has inefficiency due to the lack of PSMC employee's ability. Likewise, 39(13.04%) entrepreneurs said that, enterprises tax collection has inefficiency due to unclear legal provision and faulty collection process. Similarly, 188(62.88%) respondents said that, it is due to the lack of awareness in entrepreneurs about enterprise tax.

Figure 4.10: Reasons for Inefficiency of Enterprises Tax Collection



From the above figure it is clearly shown that, nearly 63% responded for lack of awareness, 13% unclear legal provision. Similarly, 13% faulty collection process and 11% responded for lack of employee ability.

4.1.12 Perception about Tax Zone:

Tax zone means different tax rates for different types of business according to their places, nature, and their transaction. Actually, tax zones are determined for the rationalization of tax policy. Those enterprises, which are operating in the main market area of municipality, earn more profit than others and they take more facilities from municipal such as lighting, sweeping and waste picking etc. Therefore, they have to pay different tax although the natures of business are same. Similarly, enterprises operating in outside market area, earn less profit than core areas and also receive less urban facilities. So, the

enterprises of the same nature but operating in different areas should pay enterprises tax at different rates. Therefore, this is the rationale of tax zones.

4.1.12.1 Perception about Division of Tax Zone:

It is already mentioned that, tax zones are essential for the rationalization of tax policy and equity. Different tax rates are applicable for the entrepreneurs with the same natures of business. So, it was tried to collect the opinions of entrepreneurs regarding tax zones and base for the division of tax zones. The opinions are presented below in table 4.16.

Table 4.16: Opinion about Division of Tax Zone

Types of Entrepreneurs	Respondents	Required		Not Required	
		No	%	No	%
Commercial Goods	86	50	58.14	36	41.86
Hotels & Restaurants	55	42	76.37	13	23.63
Bank/Financial Services	5	4	80	1	20
Professional Services	27	11	40.74	16	59.26
Industries	38	18	47.37	20	52.63
Hospital / Clinical Services	2	0	0	2	100
Educational Institutions	8	3	37.5	5	62.5
Maintenance Services	6	6	100	0	0
Communication Services	13	1	7.70	12	92.30
IT/ Computer Services	3	2	66.67	1	33.33
Other Services	60	23	38.33	37	61.67
Total	303	160	52.80	143	47.20

Source: Field Survey, 2009

From the above presented table, it is shown that, 160(52.80%) respondents entrepreneurs opinion is to determine tax zones and rest 143(47.20%) respondents say that tax zone is not necessary out of 303 respondents.

4.1.12.2 Bases for Tax Zone:

There may be different basis for tax zone. Location of the enterprises affects the transaction of the business. Those enterprises, who are operating in core area earns more profit compared to the enterprises operating out side the core market areas. PSMC have not determined tax zone for enterprise tax purpose. Therefore, one question was asked to the sampled entrepreneurs on appropriate bases for the division of the tax zones by providing closer alternatives. The responses are presented below in table 4.17.

Table 4.17: Bases for Tax Zone

Types of Entrepreneurs	Respondents	Bases							
		Busy Market Area		Simple Market Area		Situation of Infrastructure		All of the Above	
		No	%	No	%	No	%	No	%
Commercial Goods	50	6	12	2	4	9	18	33	66
Hotel & Restaurant	42	5	11.91	3	7.14	10	23.81	24	57.14
Bank/Financial Service	4	0	0	0	0	0	0	4	100
Professional Services	12	0	0	1	8.33	4	33.33	7	58.34

Industry	18	2	11.11	2	11.11	3	16.67	11	61.11
Hospital/ Clinical	0	0	0	0	0	0	0	0	0
Educational Institutions	3	0	0	0	0	2	66.67	1	33.33
Maintenance Services	6	0	0	0	0	0	0	6	100
Communication	1	1	100	0	0	0	0	0	0
IT/ Computer Services	2	0	0	0	0	0	0	2	100
Other Services	25	1	4	1	4	10	40	13	52
Total	163	15	9.20	9	5.52	38	23.31	101	61.97

Source: Field Survey, 2009

From the above presentation it is shown that, out of 163 total respondents 15(9.20%) entrepreneurs said busy market area should be the base, 9(5.52%) entrepreneurs said, ordinary market area should be the base of tax zone. Similarly, 38(23.31%) respondents said, situation of infrastructure should be the base and rest 101(61.97%) respondents said, all of the above three should be the basis of enterprise tax zone.

4.1.12.3 Opinion of Entrepreneurs on division of Tax Zone:

During the study, PSMC should divide the whole municipal area into different tax zones. In the study period one question was asked to the sample entrepreneurs that, how much division should be determined for tax zone purpose. The opinions of respondents are presents below in table 4.18.

Table 4.18: Division of PSMC into Different Tax Zone

Types of Entrepreneurs	Respondents	Tax Zones							
		Three		Four		Five		Above Five	
		No	%	No	%	No	%	No	%
Commercial Goods	48	16	33.34	14	29.16	5	10.41	13	27.09
Hotels & Restaurants	40	9	22.50	4	10	9	22.50	18	45
Bank/Financial Service	4	0	0	4	100	0	0	0	0
Professional Services	12	3	25	4	33.33	2	16.67	3	25
Industries	18	9	50	6	33.33	0	0	3	16.67
Hospital/ Clinical	0	0	0	0	0	0	0	0	0
Educational Institutions	3	1	33.33	1	33.33	0	0	1	33.34
Maintenance Services	6	6	100	0	0	0	0	0	0
Communication	1	0	0	1	100	0	0	0	0
IT/ Computer Services	2	2	100	0	0	0	0	0	0
Other Services	23	6	26.09	6	26.09	5	21.73	6	26.09
Total	157	52	33.12	40	25.48	21	13.37	44	28.03

Source: Field Survey, 2009

From the above table it shown that, 52(33.12%) respondents said three enterprise tax zones, 40(25.48%) respondents said four enterprise tax zone is better to divide whole PSMC. Similarly, 21(13.37%) respondents provide suggestion to divide PSMC in five zone and rest 44(28.03%) respondents suggest dividing in above five zone.

4.1.13 Pre-Information about Legal Action against Tax Defaulters:

From the survey results 37.17% enterprises had been running without registration with PSMC and only 62.83% were registered with municipality. Among registered enterprises 8.90% enterprises have not been paying their tax liabilities in time. If the entrepreneurs fail to pay their liabilities within the current fiscal year, they have to pay fines and penalties in next fiscal year. LSA has empowered municipality to stop any recommendation, to shut down the enterprises and to cut off the municipal services consumed by entrepreneurs. But municipality should inform the tax payers about the legal action to be taken against him/her. So, one question was asked to the respondents whether PSMC provides pre information about service cut off or not. The responses are presented below in table 4.19.

Table 4.19:Pre information about the legal Action against Tax Defaulters

Types of Entrepreneurs	Respondents	Give		Don't give	
		No	%	No	%
Commercial Goods	88	34	38.64	54	61.36
Hotels & Restaurants	53	26	49.05	27	50.95

Bank/Financial Services	5	2	40	3	60
Professional Services	27	16	59.25	11	40.75
Industries	38	23	60.53	15	39.47
Hospital / Clinical Services	2	2	100	0	0
Educational Institutions	8	6	75	2	25
Maintenance Services	6	1	16.67	5	83.33
Communication Services	13	0	0	13	100
IT/ Computer Services	3	3	100	0	0
Other Services	60	25	41.67	35	58.33
Total	303	138	45.55	165	54.45

Source: Field Survey, 2009

Out of 303 respondent entrepreneurs, 138(45.55%) responded that the municipality gives pre-information to the defaulters about the legal action and rest 165(54.45%) entrepreneurs responded that it does not inform defaulters about the legal action. Thus, its shows that PSMC is not taking the strong action against the tax defaulters.

4.1.13.1 Modes of Informing Tax Defaulters about Legal Action:

Another question was asked about the modes of informing tax defaulter for necessary actions. The entrepreneurs who are getting the information of penalties responded the different ways of information used by the PSMC. The responses are presented below in table 4.20.

Table 4.20: Modes of Informing Tax Defaulters

Types of Entrepreneurs	Respondents	Modes							
		Miking		Through News Papers		PSMC Letter		Sending Municipal Employee	
		No	%	No	%	No	%	No	%
Commercial Goods	35	5	14.29	23	65.71	5	14.29	2	5.71
Hotels & Restaurants	31	9	29.03	7	22.58	5	16.13	10	32.26
Bank/Financial Service	2	0	0	2	100	0	0	0	0
Professional Services	16	2	12.50	13	81.25	0	0	1	6.25
Industries	24	0	0	20	83.33	0	0	4	16.67
Hospital/ Clinical	2	0	0	2	100	0	0	0	0
Educational Institutions	6	0	0	6	100	0	0	0	0
Maintenance Services	1	0	0	1	100	0	0	0	0
Communication	0	0	0	0	0	0	0	0	0
IT/ Computer Services	3	0	0	3	100	0	0	0	0
Other Services	26	3	11.54	20	76.92	0	0	3	11.54
Total	146	19	13.01	97	66.44	10	6.85	20	13.70

Source: Field Survey, 2009

Above table 4.20 shows that out of 146 respondents, 19(13.01%) responded their opinions about Miking. Likewise, 97(66.44%) expressed their views on newspapers. Similarly, 10(6.85%) gave their views on letter of PSMC and rest

20(13.70%) respondents emphasized on sending municipal employees for information purposes.

4.1.14 Legal Action against Tax Defaulter:

LSA has empowered the Municipality to stop the recommendation, to shutdown the enterprise and to cut off the municipal services in the case of tax defaulters. It has been tried to find out the appropriate procedure of legal action, which would be better for the enterprises through the questionnaire. Therefore, opinions of the business community in this regard were sought. One question was asked to the sampled entrepreneurs, what should be the hierarchy of legal action. The responses are presented below in table 4.21.

Table 4.21: Legal Action against Tax Defaulter

Types of Entrepreneurs	Sampled Entrepreneurs	Respondents		AB		ABC		BAC		No Action	
		No	%	No	%	No	%	No	%	No	%
Commercial Goods	88	62	70.45	0	0	40	64.51	12	19.36	10	16.13
Hotels & Restaurants	55	40	72.73	0	0	29	72.50	9	22.50	2	5
Bank/Financial Service	05	4	80	0	0	4	100	0	0	0	0
Professional Services	27	16	59.26	3	18.75	9	56.25	4	25	0	0
Industries	38	28	73.69	1	3.57	20	71.43	6	21.43	1	3.57
Hospital/Clinical	02	1	50	0	0	0	0	1	100	0	0
Educational Institutions	08	7	87.50	2	28.58	4	57.14	1	14.28	0	0
Maintenance Services	06	6	100	0	0	6	100	0	0	0	0
Communication	13	4	30.76	0	0	3	75	1	25	0	0

IT/ Computer Services	03	3	100	0	0	3	100	0		0	0
Other Services	60	30	50	3	10	21	70	4	13.33	2	6.67
Total	305	201	65.90	9	4.48	139	69.15	38	18.91	15	7.46

Source: Field Survey, 2009

Note:

A: Publication of Defaulter Name in Newspaper and collect fine

B: Cutoff the Municipal Services

C: Shut down the Enterprises

D: Others

From the above table, out of 305 Sample entrepreneurs only 201(65.90%) responded the question regarding appropriate procedure of legal action for tax defaulter. Out of them, 9(4.48%) suggested to publish the name of tax defaulter in newspaper and collect fine at first then Cutoff of the municipal services in second. Among the total respondents, 139(69.15%) respondents suggested to publish the name of defaulter in first and cutoff the Municipal services in second then shut down the enterprise in third. Similarly, 38(18.91%) suggested to cutoff the municipal services at first, publish the name of defaulter in newspaper in second order and then shutdown the enterprises in third step. Likewise, 15(7.46%) respondents suggest for no action against defaulters.

4.1.15 Tax Assessment:

Enterprise tax assesses Municipal council. Efforts have been made to know the opinions about how their taxes are being assessed. The opinions of the entrepreneurs of the sampled enterprises are presented below in table 4.22.

Table 4.22: Opinion on Tax Assessment

Types of Enterprises	Respondents	From Municipal Council		Consultation With PCCI		Consultation With Entrepreneurs		Don't Know	
		No	%	No	%	No	%	No	%
Commercial Goods	71	39	54.93	06	8.45	05	7.04	21	29.58
Hotels & Restaurants	48	18	37.50	01	2.08	06	12.50	23	47.92
Bank/Financial Service	0	0	0	0	0	0	0	0	0
Professional Services	21	19	90.48	01	4.76	0	0	01	4.76
Industries	32	28	87.50	01	3.13	0	0	03	9.37
Hospital/ Clinical	1	1	100	0	0	0	0	0	0
Educational Institutions	7	06	85.71	0	0	0	0	01	14.29
Maintenance Services	6	05	83.34	0	0	0	0	01	16.66
Communication	5	03	60	02	40	0	0	0	0
IT/ Computer Services	3	03	100	0	0	0	0	0	0
Other Services	35	15	42.86	03	8.57	02	5.71	15	42.86
Total	229	137	59.83	14	6.11	13	5.67	65	28.39

Source: Field Survey, 2009

From the above table, it's shown, out of 229 respondents 137(59.83%) responded that municipal council itself should assess the tax. 14(6.11%) responded that PSMC should consult with Pokhara Chamber Of Commerce and Industry (PCCI) while assessing the enterprise tax. Likewise, 13(5.67%) suggested that PSMC should consult with entrepreneurs and rest 65(28.39%) respondents that they don't know about the assessment of enterprise tax.

4.1.15.1 Opinion on Tax Assessment:

During the study, one question was asked to the sample entrepreneurs about their opinions on existing tax assessment system. The responses are presented below in table 4.23.

Table 4.23: Opinion on Existing Tax Assessment System

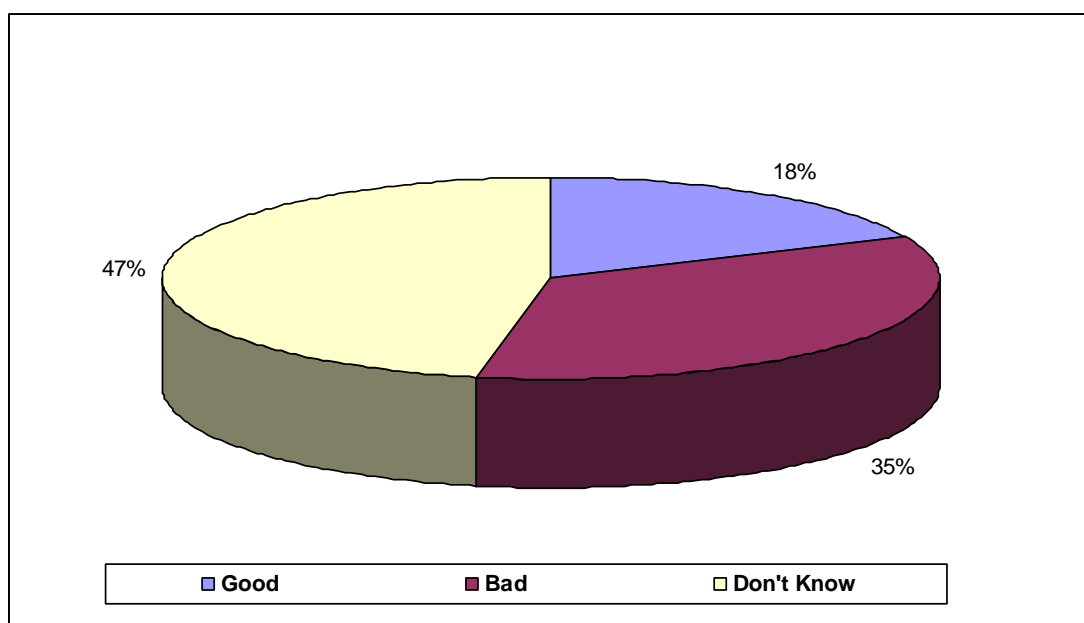
Types of Enterprises	Sampled Enterprises	Respondents		Good		Bad		Don't Know	
		No	%	No	%	No	%	No	%
Commercial Goods	88	80	90.91	8	10	33	41.25	39	48.75
Hotels & Restaurants	55	51	92.72	10	19.61	26	50.98	15	29.41
Bank/Financial Service	05	5	100	4	80	0	0	1	20
Professional Services	27	25	92.60	9	36	8	32	8	32
Industries	38	38	100	7	18.42	13	34.21	18	47.37
Hospital / Clinical	02	2	100	0	0	0	0	2	100
Educational Institutions	08	8	100	6	75	1	12.5	1	12.5
Maintenance Services	06	6	100	1	16.67	1	16.67	4	66.66
Communication	13	12	92.31	0	0	0	0	12	100
IT/ Computer Services	03	3	100	1	33.33	2	66.67	0	0

Other Services	60	60	100	7	11.67	17	28.33	36	60
Total	305	290	95.08	53	18.27	101	34.83	136	46.90

Source: Field Survey, 2009

From the above table it is shown that, out of 305 sampled entrepreneurs' only 290(95.08%) respondents gave their views. Among 290 respondents, 53(18.27%) responded their view as good. Similarly, 101(34.83%) responded that the existing tax assessment system is bad and rest 136 (46.90%) entrepreneurs responded, they don't know the existing tax assessment system yet.

Figure 4.11: Opinion on Existing Tax Assessment System



From the above figure it is clearly shown that, nearly 47% entrepreneurs don't know the existing tax assessment system. 35% entrepreneurs said, existing tax assessment system is bad and rest 18% responded for good.

4.1.15.2 Suitable Tax Assessment Organization:

Another question was asked for the sampled entrepreneurs about what could be the suitable tax assessment organization. The responses are presented below in table 4.24.

Table 4.24: Suitable Tax Assessment Organization

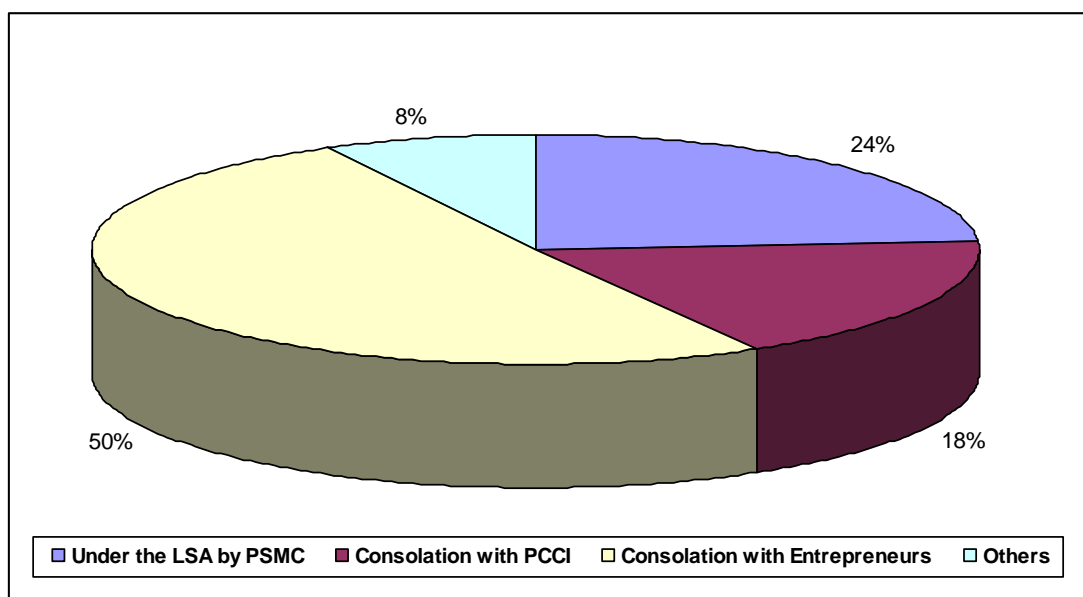
Types of Enterprises	Respondent Enterprises	Under the LSA by PSMC		Consolation with PCCI		Consolation with Entrepreneurs		Others	
		No	%	No	%	No	%	No	%
Commercial Goods	42	05	11.90	09	21.43	27	64.29	01	2.38
Hotels & Restaurants	38	15	39.47	03	7.90	13	34.21	07	18.42
Bank/Financial Service	0	0	0	0	0	0	0	0	0
Professional Services	08	05	62.5	03	37.5	0	0	0	0
Industries	15	01	6.67	05	33.33	09	60	0	0
Hospital / Clinical	0	0	0	0	0	0	0	0	0
Educational Institutions	01	0	0	0	0	01	100	0	0
Maintenance Services	02	0	0	0	0	02	100	0	0
Communication	0	0	0	0	0	0	0	0	0
IT/ Computer Services	02	0	0	0	0	02	100	0	0
Other Services	22	05	22.73	03	13.64	12	54.54	02	9.09
Total	130	31	23.84	23	17.70	66	50.76	10	7.70

Source: Field Survey, 2009

The above table shown that, out of 130 respondents entrepreneurs 31(23.84%) suggested to assess the tax under the LSA by PSMC office. Likewise, 23(17.70%) suggested to consult with Pokhara Chamber of

Commerce and Industry (PCCI) and 66(50.76%) entrepreneurs suggested to consult with taxpayers. Remaining 10(7.70%) respondents gave their views as other organization will be suitable organization to assess the enterprise tax.

Figure 4.12: Suitable Tax Assessment Organization



From the above figure it is clearly shown that, 50% respondents suggested for consultation with entrepreneurs, 24% suggested for PSMC. Similarly, 18% suggested for consultation with PCCI and rest 8% suggested for others.

4.1.16 Decision on Use of Fund Raised from Enterprise Tax:

During the study period, there were different views about decision on use of fund raised from enterprise tax. Moreover, business communities understand the urban infrastructure and sanitation services by professional interest area. But the problem is that, how PSMC should make decision regarding the expenditure of fund raised from the enterprise tax. The opinions are presented below in table 4.25.

Table 4.25: Decision on Use of Fund Raised from Enterprise Tax

Types of Entrepreneurs	Sampled Entrepreneurs	Respon dents		PSMC Municipal Board		Consolation with Chamber of Commerce		Consolation with Related Association		Consolation with Intellectual	
		No	%	No	%	No	%	No	%	No	%
Commercial Goods	88	86	97.73	31	36.04	10	11.63	19	22.10	26	30.23
Hotels & Restaurants	55	55	100	24	43.64	03	5.45	10	18.18	18	32.73
Bank/Financial Service	05	05	100	03	60	0	0	0	0	02	40
Professional Services	27	26	96.30	16	61.54	03	11.54	02	7.69	05	19.23
Industries	38	38	100	19	50	07	18.43	08	21.05	04	10.52
Hospital/ Clinical	02	02	100	02	100	0	0	0	0	0	0
Educational Institutions	08	07	87.5	06	85.71	0	0	0	0	01	14.29
Maintenance Services	06	06	100	0	0	0	0	03	50	03	50
Communication	13	13	100	10	76.92	02	15.39	0	0	01	7.69
IT/ Computer Services	03	03	100	01	33.33	0	0	01	33.33	01	33.33
Other Services	60	59	98.33	20	33.90	13	22.03	06	10.17	20	33.90
Total	305	300	98.36	132	44	38	12.67	49	16.33	81	27

Source: Field Survey, 2009

The above table shown that, out of 305 respondents 300(98.36%) entrepreneurs suggested their views. 132 (44%) responded that it is better to take decision on fund utilization raised from enterprise tax by PSMB board. Likewise, 38(12.67%) entrepreneurs suggested taking decision by consultation with chamber of commerce. 49(16.33%) suggested their views for consultation with related business association and rest 81(27%) respondents suggested for consultation with intellectual.

4.1.17 Entrepreneurs Interest on Utilization of Enterprise Tax:

The entrepreneurs are paying enterprise tax and they are expecting benefit against their contribution. PSMC should use fund for their interest also. So, it was tried to identify the prospective areas of their interest. The result of the study is presented below in table 4.26.

Table 4.26: Expenditure Field for Entrepreneurs Interest

Types of Entrepreneurs	Sampled Entrepreneurs	Respondents		Urban Road / Drainage		Street light / Drinking Water		Waste Management		All of Above	
		No	%	No	%	No	%	No	%	No	%
Commercial Goods	88	88	100	0	0	02	2.28	04	4.54	82	93.18
Hotels & Restaurants	55	55	100	0	0	0	0	03	5.45	52	94.55
Bank/Financial Service	05	05	100	0	0	0	0	0	0	05	100
Professional Services	27	25	92.59	0	0	0	0	0	0	25	100
Industries	38	36	94.74	0	0	01	2.78	02	5.55	33	91.67
Hospital/ Clinical	02	02	100	0	0	0	0	0	0	02	100
Educational Institutions	08	08	100	0	0	0	0	0	0	08	100
Maintenance Services	06	06	100	0	0	0	0	0	0	06	100
Communication Services	13	13	100	0	0	0	0	0	0	13	100
IT/ Computer Services	03	03	100	0	0	0	0	0	0	03	100
Other Services	60	59	98.33	0	0	02	3.39	04	6.78	53	89.83
Total	305	300	98.36	0	0	05	1.67	13	4.33	282	94.0

Source: Field Survey, 2009

From the above presentation it shows that, out of 305 sample entrepreneurs, 300(98.36%) responded on this question. No emphasis was given for construction of urban road and drainage. Among the respondents, entrepreneurs 5(1.67%) suggested to allocate fund for street lighting and drinking water projects. Likewise, 13 (4.33%) respondents suggested to invest fund for proper waste management works and huge numbers 282(94%) respondents emphasized to allocate fund for all of the above projects properly.

4.1.18 Suitable Collection Option of Enterprise Tax Arrears:

During the study period, many enterprises were run without registration with PSMC. PSMC has lost potential revenue from those unregistered enterprises. 8.90% registered enterprises have not been paying their liabilities for a long period. PSMC will not be able to collect such tax arrears without trapping the entrepreneurs. So, it was tried to identify the best collection options for reducing enterprise tax arrears. The study result is presented below in table 4.27.

Table 4.27: Suitable Collection Option for Reducing Tax Arrears

Types of Entrepreneurs	Sampled Entrepreneurs	Respondents		Some percent Discount		Some Year Discount		Mgt. of Effective Punishment		Awareness Complaining	
		No	%	No	%	No	%	No	%	No	%
Commercial Goods	88	86	97.73	05	5.81	15	17.44	07	8.14	59	68.61
Hotels & Restaurants	55	53	96.36	08	15.10	12	22.64	09	16.98	24	45.28

Bank/Financial Service	05	05	100	0	0	01	20	0	0	04	80
Professional Services	27	27	100	02	7.40	08	29.63	01	3.71	16	59.26
Industries	38	38	100	02	5.27	16	42.10	02	5.27	18	47.36
Hospital/Clinical	02	02	100	0	0	01	50	0	0	01	50
Educational Institutions	08	08	100	0	0	01	12.50	0	0	07	87.50
Maintenance Services	06	06	100	0	0	0	0	0	0	06	100
Communication Services	13	13	100	0	0	04	30.77	0	0	09	69.23
IT/ Computer Services	03	03	100	0	0	01	33.33	0	0	02	66.67
Other Services	60	60	100	03	5	21	35	02	3.33	34	56.67
Total	305	301	98.69	20	6.65	80	26.58	21	6.97	180	59.80

Source: Field Survey, 2009

From the above table shown that, out of 305 sample entrepreneurs, 301(98.69%) responded on this question. Among them, 20(6.65%) suggested to discount some percent on arrear liability. 80 (26.58%) respondents suggested to discount some year on arrear liability. Similarly, 21(6.97%) respondents emphasized on effective management of legal punishment and remaining 180(59.80%) respondents strongly recommended for awareness campaign to reduce enterprise tax arrears.

4.1.19 Suitable Enterprise Tax Collection Venue:

Tax collection venue is the spot where the taxpayers pay their tax liabilities. Appropriate tax collection spot should be declared for efficient tax collection. It should be common place where the entrepreneurs recommended. The last

question was asked to the sampled entrepreneurs during the study. The responses are presented below in table 4.28.

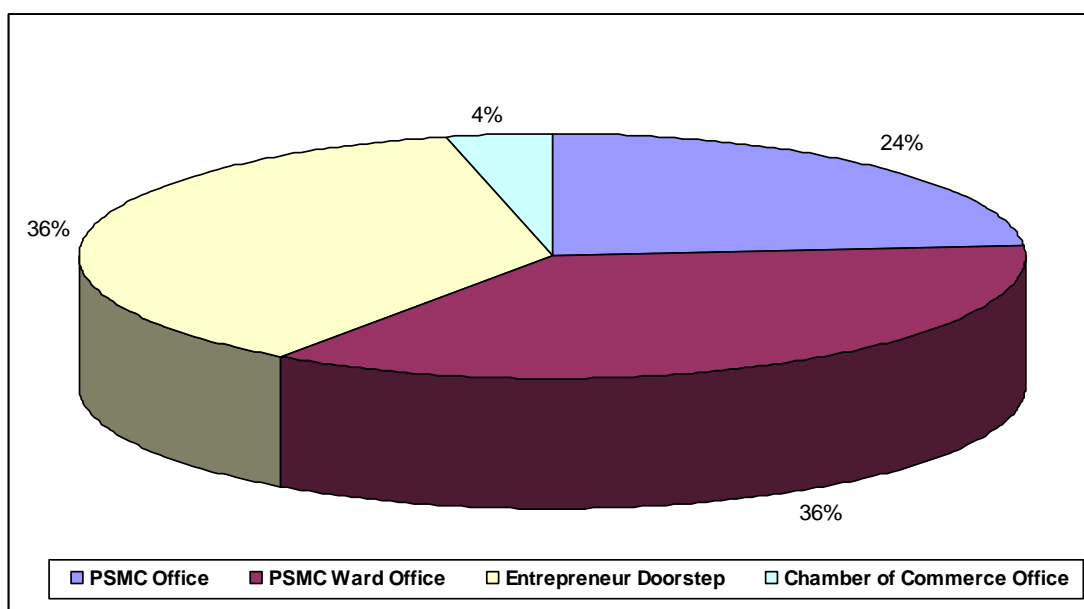
Table 4.28: Suitable Enterprise Tax Collection Venue

Types of Entrepreneurs	Sampled Entrepreneurs	Respondents		PSMC Office		PSMC Ward Office		Entrepreneur Doorstep		Chamber of Commerce Office	
		No	%	No	%	No	%	No	%	No	%
Commercial Goods	88	88	100	14	15.91	36	40.91	31	35.23	07	7.95
Hotels & Restaurants	55	55	100	17	30.91	13	23.64	24	43.64	01	1.81
Bank/Financial Service	05	05	100	04	80	0	0	01	20	0	0
Professional Services	27	27	100	11	40.74	03	11.11	12	44.44	01	3.71
Industries	38	38	100	07	18.42	14	36.84	17	44.74	0	0
Hospital/Clinical	02	02	100	0	0	01	50	01	50	0	0
Educational Institutions	08	08	100	0	0	05	62.50	03	37.50	0	0
Maintenance Services	06	06	100	01	16.67	04	66.66	01	16.67	0	0
Communication Services	13	13	100	04	30.77	04	30.77	05	38.46	0	0
IT/ Computer Services	03	03	100	02	66.67	0	0	01	33.33	0	0
Other Services	60	60	100	12	20	30	50	16	26.67	02	3.33
Total	305	305	100	72	23.61	110	36.06	112	36.72	11	3.60

Source: Field Survey, 2009

The above table shown that, total 305(100%) entrepreneurs responded on this question. Among them, 72(23.61%) suggested to collect enterprise tax at PSMC office. 110(36.06%) respondents recommended to ward Office for payment of enterprise tax. Likewise, 112(36.72%) respondents suggested for doorstep collection and rest 11(3.60%) emphasized to Chamber of Commerce and Industry.

Figure 4.13: Suitable Enterprise Tax Collection Venue



From the above figure it is clearly shown that, 23.61% suggested collecting enterprise tax at PSMC office. 36.06% respondents recommended ward Office for payment of enterprise tax. Likewise, 36.72% respondents suggested for doorstep collection and rest 3.60% emphasized for Chamber of Commerce and Industry.

4.2 Major Findings of the Study:

4.2.1 There is fluctuation in total internal revenue trend in study period. In fiscal year 2058/059 & 059/060 had highest progress achievement that was 78.67% and 78.68%. The lowest achievement was 18.95% in fiscal year 2057/058.

4.2.2 The contribution of enterprise tax in total revenue was highest in fiscal year 2057/058, which was 7.91% and minimum in fiscal year 2060/061, which was 1.89%. During the study period, the contribution was not exceeding than 7.91%.

4.2.3 The potentiality of revenue from the enterprise tax is Rs. 1,72,274.50 thousands and minimum potentiality is Rs. 9,309.64 thousands if it is possible to impose enterprise tax to all the enterprises operating its area.

4.2.4 The collection efficiency of enterprise tax of PSMC was also fluctuating. In fiscal year 2061/062, there was minimum collection efficiency that was 19.23% and in fiscal year 2065/066 was maximum, which was 116.14%.

4.2.5 The aware entrepreneurs about enterprise tax were 79.67% and rests 20.33% were unaware.

4.2.6 There are mainly four sources of information about the enterprise tax. There are, act/law, municipal notice, chamber of commerce and other related entrepreneur's friends. Regarding the sources 23.23% got information from act/law, 30.30% entrepreneurs got information from municipal notice.

Likewise, 4.56% got information from chamber of commerce and rest 41.91% entrepreneurs got information from their other entrepreneur's friends.

4.2.7 Regarding the registration with PSMC, 62.83% enterprise had registered their enterprises and rest 37.17% enterprises were operating without registration.

4.2.8 The major purpose of registration with PSMC are, 18.32% enterprise registered their enterprises from notice of PSMC, 13.61% registered their business for requirement for banking process, 59.16% enterprises registered their enterprises to take PSMC services and rest 8.91% registered their business house for other reasons.

4.2.9 The major reasons of not registration of the enterprises are unawareness about their tax liabilities, not legal compulsion, and fear of tax burden as unnecessary burden.

4.2.10 91.10% registered enterprises are paying their enterprise tax liabilities and 8.90% registered enterprises tax liabilities. The main reasons of paying tax are to support municipality development, due to being PSMC service user. Likewise, they are paying as an aware citizen and last one is legal compulsion.

4.2.11 86.79% entrepreneurs are paying their liabilities at municipal office, 5.74% are paying tax at PCCI office and rests 7.47% are paying their enterprise tax at their doorstep.

4.2.12 The reasons for not paying enterprise tax are, not enough profit, pay for huge tax, misutilization of fund and absence of PSMC collection groups.

4.2.13 Regarding the visit of tax collection group, 17.10% entrepreneurs responded that, the collection group visit them to collect the tax and 82.90% responded that they do not visit to collect enterprise tax.

4.2.14 The major reasons for inefficiency on enterprise tax collection are lack of awareness, faulty collection procedure, unclear legal provision and lack of employee ability.

4.2.15 Out of total respondents, 52.80% respondents suggested to determine enterprise tax zones and rest 47.20% respondents suggest that, tax zone is not necessary. Likewise, 61.97% respondents responded that, tax zones should be based on situation of market area, situation of infrastructure.

4.2.16 45.55% entrepreneurs responded that, PSMC gives pre-information about the legal action against tax defaulters and 54.55% entrepreneurs responded that, it does not inform defaulter about the legal action.

4.2.17 13.01% entrepreneurs got information from miking, 66.44% respondents got information through newspapers. Similarly, 6.85% respondents got information through PSMC letter and rests 13.70% respondents got information from municipal staffs.

4.2.18 Regarding the legal action against tax defaulters, 69.15% respondents suggested that, in hierarchy, i) Publish the name of defaulter in news paper ii) Cutoff municipal services and iii) Shut down their enterprises. 18.91% suggested that, cutoff the municipal services first, publish name of defaulters in newspaper in second and shutdown the business at last. Similarly, 4.48% suggested two option that is, publish the defaulters name in newspaper and only cutoff the municipal services. 7.46% suggested that, no action be taken against defaulters.

4.2.19 Regarding the existing tax assessment system, majority 59.83% respondents entrepreneurs responded that, municipal council is determining the enterprise tax, 28.39% respondents said, they don't know, how the tax is assessed, 6.11% respondents said, present enterprise tax has been determined with consultation with PCCI and rests 5.67% respondents said, present enterprise tax have been determined by consultation with entrepreneurs. Out of 305 sampled entrepreneurs only 290(95.08%) respondents gave their views. Among 290 respondents 53(8.27%) responded that, the existing tax assessment system is bad and rests 136(46.90%) entrepreneurs they don't know the existing tax assessment system yet.

4.2.20 50.76% respondents' entrepreneurs suggested that, tax rate should be fixed by consultation with entrepreneurs. 23.84% respondents suggested that, PSMC should fix tax being under the LSA. Likewise, 17.70% respondents suggested consulting with PCCI for tax and remaining 7.70% respondents suggested others.

4.2.21 Regarding the fund raised from enterprise tax, majority (44%) taxpayer suggested that, decision should be taken for utilization of fund by municipal board. 27% respondents suggested to consult with intellectual for utilization of collected fund. Similarly, 12.67% respondents responded that, PSMC should consult with chamber of commerce for utilization of fund and remaining 16.33% respondents responded that, PSMC should consult with related business association for utilization.

4.2.22 59.80% respondent entrepreneurs suggested that, PSMC should launch awareness campaigning to entrepreneurs for reducing tax arrears. 26.58% respondents suggested PSMC to launch some year discount policy to reduce tax arrears. Likewise, 6.97% responded that, municipality should make effective punishment mechanism for defaulters and 6.65% respondents suggested for some percent discount on due amount.

4.2.23 Regarding the suitable enterprise tax collection venue, 36.72% respondents suggested for doorstep collection, 36.06% respondents suggested for their related ward office. Similarly, 23.61% respondents suggested that, PSMC should collect tax at municipal office and rests 3.60% respondents suggested to collect enterprise tax at chamber of commerce office.

CHAPTER–V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter includes three aspects of the study summary, conclusion and recommendations. The first aspect summarizes the whole study, the second draws the conclusion and last one forwards the recommendations for the improvement of financial condition of PSMC by improving the enterprise tax yield.

5.1 Summary:

Nepal is a developing country. Above 80% of the total population lives in rural areas and almost all of these people are adopting agriculture as their profession. So, Nepalese economy is mainly based on agriculture. There are two levels of government, central and the local government. District Development Committee (DDC) and Municipality/ Village Development Committee (VDC) represent local government. Still now, there are 75 DDCs, 58 Municipalities and 3915 VDCs. In Nepal, there are five development regions. They are the eastern development region, the central development region, the western region development region, mid-western development region and last one is far-western development region.

Municipal financing is new concept in Nepal. Municipal financing indicates the study of various sources of revenue (both internal and external) and their collection, allocation, mobilization and utilization of those resource in such a manner that ultimate municipal goal can be achieved through it. Nowadays

urban facility has been on the rise because of the sophisticated life style people are adopting. So, municipal needs to mobilize local sources effectively to overcome the financial crisis. Municipalities get revenue from taxes, fees, service charges and grants from different sources. Therefore taxation is considered as a powerful instrument of government as well as municipal for raising revenue in Nepal. Income taxes, property tax, business profit taxes are direct taxes and customs, excise, enterprise tax, service charge are indirect ones.

Enterprise tax is indirect tax which is imposed annually under LSA. It may be one of the most reliable sources of municipality. Enterprise tax can help raise the local revenue for municipality. This study is concerned to Pokhara Sub-Municipal Corporation, where a lot of business houses/enterprises are running. The study was based on primary as well as secondary data. Primary data was collected from structured questionnaire. The total population of the enterprise was 10,210 and 3% sample was drawn, which was nearly 305. Mainly, percentage, average and trend analysis have been used to analyze and present the responses. All the data processing and analysis work was done by Microsoft Excel program in computer.

PSMC is collecting enterprise tax mainly by trapping the entrepreneurs and sending the door step collection group. The enterprise tax payers are not ready to pay their liabilities without compulsion, but collection group are not being mobilized effectively over there. There is fluctuation in total internal revenue trend in study period. In fiscal year 2058/059 & 059/060 had highest progress achievement that was 78.67% and 78.68%. The lowest achievement was 18.95% in fiscal year 2057/058. The contribution of enterprise tax in total

revenue was highest in fiscal year 2057/058, which was 7.91% and minimum in fiscal year 2060/061, which was 1.89%. During the study period, the contribution was not exceeding than 7.91%. The maximum potentiality of revenue from the enterprise tax is Rs. 1,72,274.50 thousands and the minimum is Rs. 9,309.64 thousands, if it is possible to impose enterprise tax to all the enterprises operating its area. The collection efficiency of enterprise tax of PSMC is also fluctuating. In fiscal year 2061/062, there was minimum collection efficiency that was 19.23% and in fiscal year 2065/066 was maximum, which was 116.14%. The entrepreneurs who were aware about enterprise tax were 79.67% and rest (20.33%) were unaware about enterprise tax.

There are mainly four sources of information about the enterprise tax. They are, act/law, municipal notice, chamber of commerce and other related entrepreneur's friends. Regarding the registration with PSMC, 62.83% enterprise have registered their enterprises and rest 37.17% enterprise are operating without registration.

The major purpose of registration with PSMC are, enterprise registered their enterprises from notice of PSMC, requirement for banking process, to take PSMC services and other reasons. The major reasons of not registration of the enterprises are unawareness about their tax liabilities, no legal compulsion, fear of tax burden and unnecessary burden. The main reasons of paying tax are to support municipality development, due to being PSMC service user. Likewise, they are paying it as an aware citizen and sometimes because of legal compulsion. Most of the entrepreneurs are paying their liabilities at municipal office. The reasons for not paying enterprise tax are:

not enough profit, pay for huge tax, misutilization of fund and absence of PSMC collection groups. The major reasons for inefficiency on enterprise tax collection are lack of awareness, faulty collection procedure, unclear legal provision and lack of employee ability.

Majority respondents suggest to determine enterprise tax zones and rests suggested that, tax zone is not necessary. The 61.97% respondents responded that, tax zones should be based on situation of market area, situation of Infrastructure. Most of the entrepreneurs said that, PSMC does not inform defaulter about the legal action. Entrepreneurs' gets information from miking, newspapers, through PSMC letter and from municipal staffs.

Regarding the legal action against tax defaulters, 69.15% respondents suggested that, in hierarchy, i) Publish the name of defaulter in news paper ii) Cutoff municipal services and iii) Shut down their enterprises. 18.91% suggested that, cutoff the municipal services first, publish name of defaulters in news paper in second and shutdown the business at last. Similarly, 4.48% suggested two option that is, publish the defaulters name in newspaper and only cutoff the municipal services. 7.46% suggested that, no action against defaulters.

Regarding the existing tax assessment system, majority 59.83% respondents entrepreneurs responded that, municipal council is determining the enterprise tax, 28.39% respondents said, they don't know, how to assess the tax, 6.11% respondents said, present enterprise tax have been determined with consultation with PCCI and rests 5.67% respondents said, present enterprise tax have been determined by consultation with entrepreneurs. Out

of 305 sampled entrepreneurs, only 290(95.08%) respondents gave their views. Among 290 respondents 53(8.27%) responded that, the existing tax assessment system is bad and rests 136(46.90%) entrepreneurs they don't know the existing tax assessment system yet.

Entrepreneurs suggested that, tax rate should be fixed by consultation with entrepreneurs, chamber of commerce by municipal board. Most of the entrepreneurs suggested to consult with intellectual, chamber of commerce and related business association for utilization of collected fund. PSMC should launch awareness campaign to entrepreneurs for reducing tax arrears. Municipality also should make effective punishment mechanism for defaulters. PSMC should collect enterprise tax at related ward office, municipal office, and chamber of commerce office as well as door step.

5.2 Conclusion:

The following conclusions have been drawn from the analysis of the study.

5.2.1. The trend of total internal revenue is fluctuating during the study period. It was Rs. 13,726 thousand in fiscal year 2057/058, Rs. 63,338 thousand in fiscal year 2058/059 and in fiscal year 2063/064 Rs. 47,070 thousand. So, it is concluded that, tax collection procedures of municipality are not effective. Therefore, taxpayers are not paying their liabilities regularly. PSMC is unable to collect minimum level of potential tax. The total tax collection progress ranges 18.95% to 78.68%. This shows that, the PSMC used to project the revenue unscientifically.

5.2.2 Similarly, the actual enterprise tax is also fluctuating during the study period. The contribution of enterprise tax to the total revenue ranges 1.89% to 7.91%. This scenario shows that, PSMC used to project the enterprise tax unscientifically as well as the collection procedure used was faulty.

5.2.3 PSMC is not able to collect the potential revenue from the enterprise tax because of ineffective collection procedure and lack of appropriate legal action against defaulters.

5.2.4 As per findings, it clearly shows that, the enterprise tax collection efficiency vary from 19.23% to 116.14%. It is also very highly fluctuating situation.

5.2.5 Majority of entrepreneurs are aware about enterprise tax. One forth entrepreneurs were aware from act/law and rests were aware from municipal notice, chamber of commerce and their other entrepreneurs' friends. Most of the enterprises are registered and paying their liabilities. The registered 59.16% enterprises are registered only to avoid the cut-off of municipal services. Other reasons are notice of PSMC, requirement for banking process and others. Major reasons for not registration are unawareness, lack of legal compulsion and unnecessary tax burden.

5.2.6 As per finding, majority entrepreneurs are paying their tax. Among them 86.79% are paying at municipal office and rests are paying the tax at doorstep, PCCI office. During the study, we found PSMC is collecting tax by trapping the entrepreneurs at office who come for other works. Till now PSMC is unable to

perform motivational activities to taxpayers. Majority respondents responded that, door step collection team are not coming for tax collection. So, it can easily be said that PSMC is not mobilizing team effectively.

5.2.7 More than half entrepreneurs suggested that, PSMC should divide different tax zones. Majority respondents responded that tax zone should be based on situation of market area, situation of infrastructure.

5.2.8 Majority entrepreneurs responded that, PSMC is not informing the tax liabilities and their penalties to tax defaulters. They are unknown about their liability. PSMC is informing the entrepreneurs by miking and through news papers, which is not effective.

5.2.9 As per finding, majority respondents suggested that, legal action should be taken against tax defaulters in the following hierarchy. i) publication of defaulters name in newspaper and collect fine ii) cut off municipal service and iii) shut down the enterprises.

5.2.10 Majority 46.90% entrepreneurs responded their view that, they don't know the present tax assessment system and 34.83% entrepreneurs are against the present tax assessment system. PSMC is not including entrepreneurs and professional association in tax assessment. Majority respondents suggested that PSMC should consult the entrepreneurs while assessing tax. 17.70% respondents suggested, consulting with chamber of commerce.

5.2.11 Majority entrepreneurs responded that, decision on utilization of fund should be done by municipal board. Other remaining respondents suggested that, PSMC should consult with PCCI, related association and other intellectuals while taking decision.

5.2.12 As per finding, majority respondents suggested investing the fund for urban road/drainage, street lighting/drinking water and proper waste management projects.

5.2.13 To reduce tax arrears, most of the respondents suggested for awareness campaigning to entrepreneurs.

5.2.14 As per finding, the two suitable enterprise tax collection venue suggested were, door step collection and their related ward office. Therefore, it can be concluded that PSMC should collect enterprise tax in both alternatives as well as municipal office.

5.3 Recommendation:

On the basis of the conclusions drawn through this research work, the following recommendations have been forwarded for further improvement of the enterprise tax yield of PSMC.

5.3.1 The collection efficiency of total internal revenue and enterprise tax was fluctuating because of unscientific budget plan. PSMC should adopt the modern and scientific budget plan considering the previous year trend. PSMC should identify the prospective taxpayers and the tax roll should be updated

yearly. Municipality should train their collection group and should be effectively mobilized to investigate the prospective entrepreneurs and tax defaulters.

5.3.2 PSMC should launch awareness program to all the entrepreneurs about the enterprise tax. Different programs should be applied for awareness campaigning such as, municipal notice/letter, notice publication in newspapers, miking and effective mobilization of the door step collection teams. Municipality should launch motivational activities for registration with PSMC and encourage paying tax.

5.3.3 To reduce inefficiency on enterprise tax collection, PSMC should launch proper awareness programs, should rectify the faulty collection procedures, should make clear legal provision and empower their employees.

5.3.4 PSMC divides into more than three tax zones. The tax rate should be higher for those enterprises that are operating in the major city areas. The basis of enterprises tax zones should be transaction of business.

5.3.5 Municipality should make new mechanism for sending information to entrepreneurs for their tax liabilities in advance. Advance and effective billing system should be used for informing taxpayers about their tax liability. PSMC should set the punishment standards for action against tax defaulters.

5.3.6 PSMC should improve present tax assessment system. It should consult with entrepreneurs and chamber of commerce for tax assessment and utilization of fund raised from enterprise tax.

5.3.7 PSMC should manage the enterprise tax collection venue, where entrepreneurs could pay their tax liability easily. So, PSMC should receive enterprise tax from their ward office as well as door step and municipal office. Public Private Partnership (PPP) concept could be better for enterprise tax collection.

5.3.8 Municipality should make good relation with taxpayers and other related governmental institutions like, office of cortege and small Industry, Income tax office and chamber of commerce regarding enterprise tax collection procedures.

5.3.9 The enterprise tax became a remarkable source of municipality. Therefore, PSMC should appoint separate focal person for enterprise tax and mobilize to visit each enterprise for investigation and follow up the taxpayer. Besides this, PSMC should start reward and punishment practice into their tax collection employees.

BIBLIOGRAPHY

Books

Amatya, Surendra Keshar, et al. (2060). *Taxation in Nepal*. Kathmandu:
M. K Publisher and Distributers.

Dhakal, Kamal Deep(2057). *Ayakar Tatha Ghirjagga Kar Sambandhi Kar ra Lekha*.

Kathmandu: Kamal Prakashan.

Kandel, Puspa Raj(2063). *Taxation of Nepal*: Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Kothari, C.R.(1998). *Research Methodology: Methods and Techniques*.22nd Reprint. New Delhi: Wishwa Prakaskhan.

Poudyal, K. B.(1998). *Corporate Tax Planning in Nepal*.Pokhara: Sita Poudel.

Wolff, Howard K and Panta, Prem Raj.(2003). *Social Science Research and Thesis*

Writing. 3rd ed. Kathmandu: Publishers and Distribution Pvt. Ltd.

Dissertations

Adhikari, Thakur Prasad (2004). Financial Analysis of Pokhara Sub-Municipal Corporation. Master diss., Tribhuvan University.

Budhathoki, Keshav Kumar (2002). Financial Analysis and Forecasting of Pokhara Sub-Municipal Corporation. Master diss., Tribhuvan University.

Dhakal, Thakur Nath (1997). Financial Management of Nepales NGO's. Master diss., Tribhuvan University.

Dhungana, Sunita (2003). Rural Urban Partnership Program. Master diss., Tribhuvan University.

Gurung, Susma (2004). The Financial Implication of the proper Management of Recycle and Reusable waste: A Case study of PSMC. Master diss., Tribhuvan University.

Manandhar, Tara (2001). The Enterprise Tax of Pokhara Sub-Municipal Corporation. Master diss., Tribhuvan University.

Pokhrel, Madan (2008). Financial Analysis of Lekhnath Municipality. Master diss., Tribhuvan University.

Journals and Publications

Baral, Keshar Jung. (2005). The Municipal Expenditure and Revenue Structure in Nepal. *Economic Literature, P. N. Campus, Vol. VI. 2.*

James, MC Master. (1994). Urban Financial Management: *Training Manual.* p.25.

Mahat, Mani Ram Shingh. (2001). Municipal Financial Management Expert.

PSMC (2009). *Half Annual Bulletin of Pokhara Sub-Municipal Corporation:*

Pokhara. *Brochure* (2007). Pokhara Sub-Municipal Corporation.

PSMC. (2008). *Half Annual Bulletin of Pokhara Sub-Municipal Corporation:*
Pokhara.

Wegener, Alexander. (2008,June). Local Government Finance in Nepal.

German Technical Corporation, Kathmandu. Udle/GTZ. (2008,June). Municipal Finance System in Nepal: Status quo of Revenues, Expenditures and Transfers.

Related Acts and Regulations

HMG/ Nepal (2019). *Nagar Panchayat Act.* Nepal Gazette, Kathmandu.

HMG / Nepal (2020). *Nagar Panchayat Working Management Regulation*.
Nepal

Gazette, Kathmandu.

HMG/ Nepal (2048). *Municipal Act*. Nepal Gazette, Kathmandu.

HMG/ Nepal (2049). *Municipality Working Management Regulation*. Nepal
Gazette, Kathmandu.

HMG / Nepal (2055). *Local Self-Governance Act*. Nepal Gazette, Kathmandu.

HMG/ Nepal (2056). *Local Self- Governance Regulation*. Nepal Gazette,
Kathmandu.

GON/ Nepal (2064). *Economic Administration Regulation*. Nepal Gazette,
Kathmandu.

Related Website

<<http://www.gtz.org.np> (2066, Kartik 5, 6)

<<http://www.google.com>> (2066, Kartik 7)

<<http://www.muannepal.org.np>> (2066, Kartik 10)

<[http://www.fomtu.edu.np/thesis/index.php\(2066](http://www.fomtu.edu.np/thesis/index.php(2066), Bhadra 10)

<[http://www.thefreedictionary.com/difination/tax \(2066](http://www.thefreedictionary.com/difination/tax (2066), Bhadra 25)

<<http://www.mld.gov.np>> (2066, Bhadra 25)

<[http://www.udlenepal.org/reports/financial reports/ municipal
finance](http://www.udlenepal.org/reports/financial%20reports/municipal%20finance)>(2066, Aswin 2)