

**INCOME TAX COLLECTION FROM PUBLIC  
ENTERPRISES**

**(A Case Study of Nepal Telecom)**

*Submitted to:*

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**Faculty of Management**

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**In Partial Fulfillment of the Requirement for the  
Master of Business Studies (M.B.S)**

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## DECLARATION

I hereby declare that the work reported in this thesis entitled “**INCOME TAX COLLECTION FROM PUBLIC ENTERPRISES**” (A Case Study of **Nepal Telecom**) submitted to Kankai Adarsha Awasiya Compus, Tribhuvan University is my original work. It is done in the form of partial fulfilment of the requirements for the Master of Business Studies (M.B.S.) under the supervision and guidance of Mr. Shekhar Sharma.

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## ABBREVIATION

$\bar{R}$	: Adjusted Regression
AD	: Anno Domini
AETR	: Average Effective Tax Rate
BBS	: Bachelor of Business Studies
BIC	: Balaju Textile Industry Limited
BJM	: Birtanagar Jute Mill
BPM	: Bhrikuti Paper Mill
BS	: Bikram Sambat
CBS	: Central Bureau of Statistic
CEDA	: Center for Economic Development and Administration
CIT	: Corporate Income Tax
DT	: Direct Tax
FY	: Fiscal Year
GDP	: Gross Domestic Product
GR	: Gross Revenue
HBTF	: Harisidhi Bricks and Tile Factory
HMG/N	: His Majesty the Government of Nepal
IDT	: Indirect Tax
INGOs	: International Non Government Organizations
IT	: Income Tax
ITA	: Income Tax Act
ITNTC	: Income Tax from Nepal Telecom Corporation
ITPEs	: Income Tax from Public Enterprises
MBS	: Master of Business Studies
METR	: Marginal Effective Tax Rate
MOF	: Ministry of Finance
MBA	: Master of Business Administration
NBBU	: Nepal Bitumen and Barral Udhyog

NBL : Nepal Bank Limited  
NFDC : Nepal Film Development Company  
NFI : Nepal Foundry Industry  
NGO : Non Government Organization  
NIDC : Nepal Industrial Development Corporation  
NLO : Nepal Lube Oil  
NTC : Nepal Telecommunication Corporation  
NTDC : Nepal Tea Development Corporation  
PAN : Permanent Account Number  
PEs : Public Enterprises  
R : Regression  
RHCDC : Row Hide Collection and Development Corporation  
RNAC : Royal Nepal Airlines Corporation  
Rs. : Rupees  
SRJM : Shree Ragupati Jute Mill  
TDS : Tax Deducted at Source  
TR : Total Revenue  
TTR : Total Tax Revenue  
TU : Tribhuvan University  
VAT : Value Added Tax

# CHAPTER - I

## INTRODUCTION

### **1.1 Background of the Study:**

A nation requires sufficient funds to carry out development plans, handle day to day administration, maintain peace and security and launch other public welfare activities. So, economic development is the prime concern of every nation of the world. For the economic development, government has huge responsibilities towards the people. To fulfill the responsibilities, government needs revenue to operate different activities in a country. Such activities include general activities and developing activities. General activities incurred for the protection of common people and public administration while development activities incurred for providing transportation, education, health and public utilities facilities to the community.

Nepal is one of the poorest countries in the world with a per capita income of \$ 250. Most of the people here are dependent on agriculture for their livelihood which is about 81%. Agriculture contributes more than 40 % of GDP. As a final result of the census, total population of Nepal on the down of 22<sup>nd</sup> June 2001 is 23,151,423 and the growth rate of the population of Nepal is 2.25% per annum.

Nepal is a developing country so to upgrade the living standard and to be self reliant economic system it needs a lot of fund. Fund can be collected from two sources i.e. internal and external sources. Developing country like Nepal has limited sources of internal fund so most of the development activities depend on the external sources. The external sources of finance are bilateral and multilateral grants, foreign aid; loans from foreign countries and fund from donor agencies. But these sources have been limited, inconvenient and not suitable to boost up the

Nepalese economy due to the vested interest of the programs and policies of donor countries and agencies and need to pay high interest and acceptance of inappropriate condition to take the loan. So, government tries to finance from internal sources. The internal sources constitute of tax and non tax revenue. It is very important for the country like Nepal to mobilize the internal resources where adequate natural resources and low cost labor force are available.

Internal sources of public funds are important not only for necessary financing funds, but also for proper utilization of external funds. Based in nature of sources, public funds are also classified into revenue (Public income) and borrowing (could be external and internal). The public income or revenue includes taxes, revenue from government corporations and public enterprises, fees, special assessment, fines and penalties. Revenue is the main sources financing government expenditure which increase in Fiscal year 2007/2008 by 23.42% to the previous Fiscal year and stood at Rs. 107,622.48 millions of the total revenue collected in the fiscal year 2006/2007. In Nepal about 77% of total revenue comes from tax revenues and the rest 23% from non-tax revenue. (Amatya, Pokharel and Dahal 2004 pg. 3).

For the economic growth of the country, huge volume of investment and expenditure on economic activities are needed. Taxation is looked upon as the most powerful tool of the government for raising the ratio of savings and capital formation. It plays a vital role for the development of nation. It is very useful to equalize the distribution of national economy and to reduce the disparity in the distribution of wealth and income to maintain economic stability.

Tax is any compulsory levy from individuals, households and firms to central or local government. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the taxpayers. According to Prof. Seligman, "Tax is 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”. The natural person or artificial person (entity or corporate body) having tax liabilities pay taxes to the government.

The government imposes taxes on the people to repay the external debt as a consequence of which the capacity of people to work and to save declines (Vaish and Agrawal 1996).

Taxes may be categorized in direct and indirect tax. The tax directly paid by a person on whom it is legally imposed is known as a direct tax. Such taxes are income tax, property tax, vehicle tax, interest tax, gift tax etc. Indirect tax is a tax that is imposed on one person but partly or wholly paid by another. Examples of indirect are VAT, sales tax, entertainment tax, hotel tax, excise duty etc. In Nepal direct tax contributes about 21% and indirect tax contributes about 79% in tax revenue of government. (Amatya, Pokharel and Dahal 2004: pg. 3, 4).

Income tax is a kind of direct tax which is charged on person income according to the law of nation. It is defined as the tax levied on the net income derived after deducting all allowable deductions. It is levied on the income derived from business, profession, insurance, investment agencies and other remunerations such as salary, bonus, and other sources derived in cash or kinds (Dalton). Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the tax payer. People whose income is below the taxable income are free from the obligation of income tax. By imposing higher rate to those who are having high income and from that collected amount, providing necessary to the people with very poor economic condition in forms of different facilities may help to reduce the gaps in income. It may help to make equitable economic distribution in society. Balanced regional economic development is also possible through the provision of income tax by providing incentive and concessions in income tax for starting new industries in backward areas. Income tax holidays and incentives would help to develop the priority sector of a national

economy. “Income tax has become an effective investment to ensure balanced socio- economic growth.” (Mathew, 1975 and Musgrave 1998)

Income tax plays an important role in the Nepalese economy. It is a major source of government revenue. It is recognized as a good financial tool to narrow inequality of income. It is an effective instrument to ensure balanced socio-economic growth (Lal, 1991). It also helps to increase the consciousness of people because the people who have paid the income tax are interested on public expenditure. Though they can't expect any direct benefit from by paying tax, they can observe the use of the collected fund. It is also useful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see the public money may not be misused. Income tax is essential not only for collecting government revenue but also for controlling over consumption for promoting saving and for generating more employment. Nepal is still been unable to maximize the collection of income tax. In structure of total revenue, income tax contributes only 14% whereas 86% is collected from other sources. In total tax revenue, income tax contributes 18.71%.

The contribution of income based taxes is much smaller to the total revenue for developing countries in comparison to developed countries and is likely to remain same for sometime to come despite the efforts over the years. There are mainly four reasons as why income tax yield is less in developing countries as compared to developed ones. They are: i) Problems of defining income. ii) Problems of assessing and measuring it. iii) The choice of rates, allowance and deductions and iv) Difficulties of tax collection.

Being a developing country, sources of government revenue are very limited in Nepal. Revenue structure of Nepal mostly depends on the foreign assistance and loan but it is unfavorable to the country. Domestic resources are most reliable source to keep minimum dependency of foreign aid and loan. The role of income tax is notably significant in government revenue. It is useful to balance economic development. No body can doubt that, the equal distribution of

income is also possible through progressive income tax. It is being realized that contribution of income tax to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system for last four and half decades. But Nepal's past experience shows that the government is unable to maximize the share of income tax to the public fund as per expectation.

The present study has been designed to study the contribution of income tax from public enterprises to public revenue of Nepal. PEs play a catalytic role in social and economic development process of nation. In Nepal after the dawn of democracy in 1950 there emerged an environment in which the needs and aspirations of the people were given priority. Accordingly, Nepal government has initiated a system of establishment and functioning of PEs with huge investment for economic development. PEs highly contributes in national exchequer by various ways i.e. by direct participation in the production of goods and services for income generation including income tax.

The majority of PEs, where billions of rupees from the resources of a poor country Nepal, have been poured, has failed to deliver expected services. The productivity is low and the quality of their products is short of standard. The returns are negligible. PEs are becoming more and more burdensome and unable to shoulder their own burden.

Although being a public utility enterprise, NTC's capable to establish itself as a business firm. Financial position is also appreciable. It could successively implement its objectives and plans. Among the government revenue contributors, NTC has been taking top most place. NTC contribute to the government by various taxes such as income tax, value added tax, vehicle tax, ownership tax etc. Income tax from NTC is increasing every year with some slight fluctuation. In FY 2007/2008, income tax from NTC was Rs. 2,780.74 million, which was only Rs. 75.95 millions in the FY 1989/1990.

## **1.2 Statement of the Problem:**

The prime concern of every nation of the world is economic development. Underdeveloped countries are facing several problems in the process of economic development. Nepal is not an exception to this condition. The majority of people have not been able to get basic facilities. The government also wants to fulfill the basic needs of people within a certain period. It needs huge amount of capital for the growing aspirations of people to be fulfilled. It is feasible only when the volume of resources could be matched with the requirements. Rate of government expenditure is exceeding than the rate of growth revenue amount every year from the beginning of its development phase. Being developing country, most of Nepalese people are below the poverty line. Nearly one third of the total population (about 31.80%) live below poverty line as per the Nepal Standards Survey 2003/2004 and GDP per capita is \$ 383 (According to MOF Report 2006/2007).It shows that it needs huge amount of capital for economic development of Nepal. It is possible only when the volume of resources could be match with the requirement.

Due to the growth in government expenditure outpace the growth rates in revenue and foreign resource mobilization, fiscal balance has not been maintained and budgetary deficit has increased. The mobilization of revenue has not increased. The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is increasing. The development expenditure is continuously rising due to our weakness in selecting development projects and regular expenditure is increasing due to the result of increasing burden of debt servicing and salary as well as allowance. This is growing the difference between expenditure and revenue. In other word, financial resources gap is the major constraint of Nepalese economy.

To raise the government revenue, it is necessary to raise the sources of revenue, which helps to relieve from serious bottleneck of resource gap in the process of

economic development program. The resource gap was Rs. 46,410.30 million in FY 2006/2007 and Rs. 56,410.70 in the FY 2007/2008 (Economic Survey, 2007/2008). Resource gap in Nepalese finance has occurred because the expenditure requirement is growing at faster rate than its ability to mobilize additional resource.

Without financial resources domestic resources cannot be mobilized because it puts a heavy break on the overall development. This problem is increasing very rapidly in Nepalese economy. So this problem can be solved by income tax and bridge the gap of resource mobilization. At present Nepalese tax system are facing several problems such as tax evasion, poor tax administration and unsound income tax collection. In Nepal only 0.50% of the total population pays the income tax (Economic Survey 2005/06). Past experience shows that there is a poor tax paying habit in Nepalese people. There are various problems about income tax administration like, proper record of number of income tax payers, defective selection of personnel, lack of training and education to tax payer and tax officers, undue delay in making assessment, lack of responsibilities of officials of their work, existence of corruption, and lack of motivation to concerned authorities etc. Because of the inefficiency of the administration and increasing corruption, people have no faith in the working of government and its organization. The discretionary power of the tax personal and the tax assessment procedure of the income tax system of Nepal harass the taxpayer in the payment of tax and cause to reduce the income tax revenue.

Because of tax evasion habit of Nepalese people, role of PEs towards income tax revenue is very justifiable. PEs income tax should be adopted as a fiscal instrument in government revenue, which helps to achieve the goal of national development. But the majority of PEs has been unable to deliver the expected services; productivity and returns are very poor. PEs financial positions are unsatisfactory and are likely to become an increasing burden on government. They cannot even maintain their books of accounts, unaudited financial statement,

intention to hide their ability to pay tax, low level of morale and honesty are seen in them.

NTC has greater role to play than any other PEs as all manufacturing and non-manufacturing industries depend on the information supplied by it. NTC is successful PE because it is operating under net profit position. Even the net profit of NTC is in increasing trend. The corporation has been able to generate income tax to the government revenue. In each fiscal year, it has been increasing. The amounts of income tax from NTC are as follows:

<b>Years</b>	<b>Income Tax from NTC (in millions)</b>
1989/90	Rs. 75.95
1990/91	Rs. 80.64
1991/92	Rs. 70.48
1992/93	Rs. 206.38
1993/94	Rs. 449.17
1994/95	Rs. 550.92
1995/96	Rs. 701.92
1996/97	Rs. 634.00
1997/98	Rs. 650.00
1998/99	Rs. 670.00
1999/00	Rs. 702.08
2000/01	Rs. 761.02
2001/02	Rs. 871.50
2002/03	Rs. 1011.55
2003/04	Rs. 1175.33
2004/05	Rs. 1379.07
2005/06	Rs. 1907.08
2006/07	Rs. 2330.63
2007/08	Rs. 2780.74

**Source: Annual Report of NTC (Various Years), Head office of NTC**

NTC has been contributing considerable amount of other taxes and dividend to the government along with income tax. Government also has invested the huge amount in NTC. Government's expectations from NTC are to provide telecommunication services to the common people and get sufficient amount of dividend to fulfill the national economic goal and to get other financial support for developmental activities.

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. To fulfill desired goal, existing shortcomings in income tax system must be avoided.

So, this study has centered on the following problems as statement of the problems:

- i. What is the income tax structure of Nepal?
- ii. What is the contribution percentage of income tax of public enterprises to government revenue? Is it equally supporting to fulfill the resource gap?
- iii. What is the contribution percentage of income tax of NTC to government revenue? Is it supporting to fulfill the resources gap?
- iv. What is the resource gap pattern of Nepalese government?

### **1.3 Objectives of the Study:**

The main objectives of the studies are as follows:

- i. To analyze the income tax structure of Nepal.
- ii. To analyze the contribution of income tax from public enterprises in government revenue.
- iii. To analyze the contribution of income tax of Nepal Tele-Corporation in Government revenue.
- iv. To analyze the resource gap pattern of Nepalese Government.
- v. To put forward necessary suggestions and recommendations for income taxation with reference to NTC.

## **1.4 Scope of the Study:**

This study aims to find out the major problems, defects of income tax collections and assessment of income tax revenue from PEs, with special reference to NTC. In brief, the study mainly covers the following areas:

- i. Role of income tax in Nepal.
- ii. Role of income tax from PEs in public revenue.
- iii. Comparative study on role of income tax from PEs to total tax revenue.
- iv. Comparative study on role of income tax from NTC to total tax revenue.

## **1.5 Significance of the Study:**

Every year there is a need of mobilizing adequate resources for meeting the increasing financial requirement for Nepal development process. Thus, income tax seems to be one of the major potential resources for the mobilizing a huge amount of financial resources in Nepal. Government should identify the potential taxpayer and should give more emphasize to collect more revenue from them

Income tax plays significant role in the overall economic development whether in developed or developing countries. Income tax occupies a very important role in overall tax structure. In the world economy, share of income tax in the overall tax structure is increasing because of its importance for the economic battlement of the country.

Nepal can fulfill its financial needs by increasing its revenue through income tax earnings. Contribution of PEs towards income tax revenue should be increased. This study provides information about income tax revenue collection from public enterprises and also provides information about income tax revenue collection from NTC.



This study will have importance for the following groups and individuals:

- i. HMG board of director and management body of NTC.
- ii. Personnel and customer of NTC.
- iii. Further researcher.
- iv. University students who are new generation.
- v. NGO and INGOs.
- vi. All other interested individual and parties.

## **1.6 Limitations of the Study:**

The study has the following limitations:

- i. This study is mainly based on secondary data.
- ii. This study covers the period from FY 1989/90 to the FY 2007/08
- iii. This study is only a case study. Thus, the result may not be applicable to other enterprises thoroughly.
- iv. This study has been conducted to fulfill the requirement of the MBS Programs of T.U. for the prescribed time not for generalizations purpose.
- v. Since the study has been conducted in a year, there is limitation of time.

## **1.7 Organization of the Study:**

The entire study has been designed into five main chapters. They are:

### **Chapter-1: Introduction:**

It is an initial phase of the thesis (research), which has, incorporated background of the study, statement of the problem, objective of the study, scope of the study, significance of the study and limitation of the study.

### **Chapter-2: Review of Literature:**

This chapter has included two main aspects: (i) Conceptual framework induce concept and development of taxation in Nepal. (ii) Review of related studies

includes review of thesis, books, articles and reports with findings and recommendations.

**Chapter-3: Research Methodology:**

It reveals the methodology adopted in carrying out the research work. It includes research design, population and sampling, sources of data, procedure of data collection, data analysis procedure and uses of tools for analysis.

**Chapter-4: Data presentation and Analysis:**

It is concerned with the presentation and analysis of data that has been collected through various sources. Various collected data tabulates in their sequential order and describe and analyze with statistical tool as well as general accounting and taxation principles and findings of the study.

**Chapter-5: Summary, conclusion and Recommendations:**

The fifth chapter includes the summary, conclusions and recommendations of the study.

Besides this, Bibliography and Appendixes are attached at the end of the study.

**CHAPTER – II**

# REVIEW OF LITERATURE

## 2.1 Conceptual Framework

### 2.1.1 Concept of Tax and Income Tax

#### Concept of Tax

Tax is a necessary payment to the government. Tax is a compulsory payment to the government for the compensation of public expenditures. Tax payers do not get any direct benefit from the state by paying tax. Tax fulfills the needs of central or local government to spend for Philanthropic work. Equal distribution of wealth and income is the main objective of tax.

Tax is compulsorily levied on individuals, firms, companies and other units for general government purposes. Government with authority assigned in different laws generates with compulsion, some funds from individuals, firms, companies and other units, which is generally termed as tax.

According to Prof. Seligman “A compulsory from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefits concerned”.

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 residents of the states”.

According to Classical economist Dalton “A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence”.

In classical economics, tax was taken as an extra burden to people. But now time has changed and the government has to provide maximum social welfare to the people. Thus, the government has to broaden its revenue.

Taxes are broadly divided into two categories:

- a) Direct tax
- b) Indirect tax

**Direct tax:**

If a person directly paid the tax liability to the government it is known as direct tax. It includes income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax etc. The direct taxes have been used to bridge the gap of income and wealth inequality in the society.

**Indirect tax:**

It is levied on the person who does not bear it from her/his own income. Indirect taxes are imposed on the consumption of goods and services. It includes export/import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax etc.

Taxation is a major instrument of social and economic policy because:

- It reduces inequality of economic development by reallocation of resources.
- It transfers resources from the private to public sector.
- It is also useful for resource mobilization through capital formation.
- It promotes economic growth, stability and efficiency.

## **Concept of Income Tax**

After the great depression of 1930's the function of government has been increased considerably. Government has got various sources to collect government revenue. Among various sources of revenue, tax is found as a major source. Everybody to who is imposed must pay income tax. Income tax is regarded as the most important instrument for the internal source mobilization of the country. Income tax is the most important single source of revenue in developed country but contribution of income tax is low in developing countries. The popularity of income tax is growing much more in developing countries.

Income tax is imposed on net income of individual and corporation. They must bear the burden of tax imposed on them. Generally income means the inflow of cash to the person. Income tax is levied on the income derived from business, employment and investment. Income tax is levied on the net income i.e. total income less the allowable deductions. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income refers to the low living standards of people.

Economist defines the term "Income" in a broad sense. It is an economic gain or receipt to a person during a particular period by way of wages, interest, profits and rent.

In Nepal, income tax is defined as the tax levied on net income derived after deducting all allowable deductions and relieves from the total income. Income tax is levied on the income derived from employment, business and investment.

Income tax can be classified into two types: personal/ individual income tax and corporate income tax. Individual income tax is a modern tax, which is measure of ability to pay of any individual. It is based on the progressive rate.

Corporate income tax levied on business enterprises having a legal personality, distinct from their owners. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate tax.

### **2.1.2 Taxation in Ancient Nepal**

Tax has been one of the major sources of national receipts for the ancient time in Nepal. In these days, tax was collected in the form of cash, kind and labor from the merchants, travelers and farmers. However the nature of tax levied by the government was temporary type in the old age. In the Lichhvi regime (known as Golden Era), taxes were the main source of revenue. During that period, taxes were known as Trikar, which meant three kinds of taxes viz. Bhaga, Bhoga and Kara. The Bhaga tax was levied on agriculture, Bhoga was on animal and Kara tax was business on business income. These taxes were introduced as direct taxes for the first time in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and 1/12 shares of production depending on the quantity of the land possessed by them. All artists had to donate labor compulsory as the tax payment. (Poydyal and Timilsina, 1990)

### **2.1.3 Taxation in Unified Nepal (1768-1846)**

After the unification of the Kingdom of Nepal, expenses for administration, Military and other operational activities were increased gradually. During that period, the taxation had been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, forest product tax and mining tax were levied. The main objective of imposing those taxes was to maximize the national revenue. In that period taxes were collected from three levels: Royal palace, Central government and local authorities. They collected cash or goods from taxpayers as taxes. Royal palace had levied taxes like Walak, Gaddimubarak, Chumawan and Goddhawa. Government had levied taxes like

Darshan Bhet and Salami and local authorities had levied taxes on forest and water sources, commercial taxes like customs, transits and market duties, mines and mints, export of forest products like herbs, drugs, wild life birds, elephant and judicial fines. Taxes from land and business were type of direct tax among the all taxes during the period. (Dhakal, 2001)

Walak was collected from each family on a regular basis and in the period of national celebration of festivals or ceremonial occasion. Similarly, Gaddimubarak was collected in the time of coronation of new King. Chumawan and Goddhawa were collected to finance the sacred thread investiture and marriage ceremonies of Royal Prince and Princesses. Godan was levied to finance funeral expenses when a reigning king died. Darsanbhet was collected from both civil and military employees at the time of their appointment and confirmation. Salami was a collection functionary in the Terai region as an annual payment.

The founder of modern Nepal, King Prithivi Narayan Shah had introduced “Pota” tax in 1772, which was regarded as revolutionary measure in fiscal system of Nepal. It was based on flat rate system rather than progressive rate principle. It was limited on small Birta owners. Though taxation was started, there was no income taxation in the modern sense. (Regmi, 1971)

#### **2.1.4 Taxation in Rana Regime (1846-1950)**

During the Rana regime there was no provision of effective revenue administration. The main sources of revenue were land revenue, custom and export of wood, which was collected in the lump sum contract basis during that period and the salami was collected from government employees as a revenue income tax. Besides these taxes, small other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal Tax Act and Finance Act.

Taxes were charged according to the will of the Rana Prime Minister. Both the incomes as well as expenditure of the government were confidential. In actual practice no difference existed between the private purse of the ruling minister and the government treasury. Therefore, income and expenditure of the state were not transparent because there was no practice of presenting the budget too in the period.

Rana prime minister levied taxes for meting specific expenditure of the royal house land or extraordinary expenditure necessitated by war or other crises rather than regular mobilizing revenue in the nation. During Nepal Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsher imposed a levy of 1% on the official value of Jagir assignment of government employee in 1891 to finance the transportation of water pipe supply in the capital. Another Rana Prime Minister, Ranoddip Shing imposes a 50% tax on the income made by fisherman in Deukhuri from the sale of fish in 1882 (Regmi, 1988).

### **2.1.5 Income Tax in Modern Nepal**

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



The Income Tax Act (ITA) has relations with the constitution, Finance Act, Income Tax Rules and Decisions of the Supreme Court. These make clear the provisions in Income Tax Law. The development of ITA in Nepal is presented below:

#### **2.1.5.1 Business Profit and Remuneration Tax Act 1960 (2017)**

Income tax in Nepal was first introduced in the FY 1959/60. It was then known as “Business Profit and Remuneration Tax”. The imposition of tax was governed by “The Business Profit and Remuneration Tax Act 1960” and rules made there under. This act consisted 22 sections. The silent features of this act were as follows:

- a. The source of income for tax purpose was limited only to business and remuneration (Only two heads of income: business and remuneration.)
- b. Tax on remuneration was to be deducted at source but the specified deductions were not provided.
- c. Deductions of expenses were not specified for the calculating taxable income.
- d. Tax on remuneration was deducted at source. (TDS)
- e. The tax officer was empowered to assess tax on best judgment assessment.
- f. In case of default, fines up to Rs. 5,000 were prescribed.
- g. Profits from industries were granted a rebate of 25% and profit from small industries were granted a rebate of 50%.

This act was very narrow and vague, high discretionary power was granted to tax officer, many loopholes and inadequate provisions were there. So because of these reasons this act was replaced by “Income Tax Act 1962(2019)”.

### **2.1.5.2 Income Tax Act 1962 (2019)**

This act was an extension of “The Business Profit and Remuneration Tax Act 1960 (2017)”. It had 29 sections. It was amended in 1972. The main features of the Act were as follows:

- a. Income tax was defined as all kinds of income such as profit from business, profession, remuneration and occupation, house and land rent, agriculture, insurance business, agency and any other sources.
- b. The basis of tax assessment was specified on the best judgment estimate of the tax officers.
- c. Provision was made for the installment basis of tax for the first time.
- d. Provision was made for reassessment of tax as well as rectification of arithmetical errors.
- e. Carry forward of losses was allowed for a period of two years.
- f. Provision was made for the exemption of income tax for industries for a period of not exceeding ten years.
- g. The residential status of the taxpayer for the purpose was defined.
- h. The act granted the power to constitute the income assessment committee.
- i. Deductible expenses as well as methods of calculation of taxable income were specified.

This Act had also some weaknesses. The changing socio-economic environment of the nation had forced to change the ITA. As a result, the ITA 1974 (2031) was made by abolishing the existing Act 1962.

### **2.1.5.3 Income Tax Act 1974 (2031)**

The ITA 1974 can be said to be the refined form of the ITA 1962. It had 66 sections. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and

1992 to make it more practical and to eliminate confusing terms. Some of the points of the act with amendment are as follows:

- a. This act had clarified the definitions about income tax, taxpayer and year of income, personal status of taxpayer, non-resident taxpayer, net income and so on.
- b. Five sources of income had been specified. They were (i) Agriculture (ii) Industry, trade, profession or occupation (iii) Remuneration (iv) House and compound rents and (v) Others.
- c. Carry forward of losses was allowed within subsequent three years.
- d. It has made provision for self-assessment of tax for the first time in Nepal.
- e. Methods of computing the taxable income from each head had been specified with deductions allowable.
- f. Deduction was allowed for life insurance premium.
- g. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
- h. Provision was made to make agreement for avoidance of double taxation with foreign governments.
- i. Provision was made relating to reassessment or additional assessment of tax.
- j. Although ITA 1974 (2031) was far ahead than the previous acts, yet it had many deficiencies and weaknesses. It had used many vague or unclear words like “reasonable”, “appropriateness” etc. It had also provided high discretionary powers to the tax officer in the matter of tax assessment.

#### **2.1.5.4 Income Tax Act 2002 (2058)**

ITA 2002 has been implemented from 19/12/2058 B.S. This act has replaced the ITA 1974 (2031) and other act related to income tax. HMG enacted

income tax rules 2059 B.S. in accordance with the authority given under section 138 'g'. ITA 2002 B.S. has 143 sections. Amended ITA 2002 has dismissed the section 66. The act was broad, scientific and international standard level. The differences of this act with previous act are made clear by its silent feature, which are given below:

- a. ITA 2058 B.S. has classified income into three headings. They are (i) Business (ii) Investment and (iii) Employment.
- b. This act has included all the previous relating to income tax. It is a law of income tax code.
- c. Provision is made to impose tax to all income sources uniformly.
- d. Provision is made for the deduction of all expenses relating to income earnings.
- e. This act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- f. Provision has been made for the deduction of all expenses relating to each income in accumulation from taxpayer's income.
- g. Carry forward of losses is allowed for the period of four subsequent years. This limit is extended up to five years for banking and insurance business.
- h. Provision of tax incentives has continued for infrastructure construction, Electricity projects and special industries and also carry forward of losses is allowed for the period of seven years to infrastructure and electricity project.
- i. It has clearly included the rights and duties of taxpayers.
- j. Provisions have been made to claim for deduction of pollution control expense, research and development expenses, repair or maintenance expenses and donation.
- k. It has classified the taxpayer into natural person and entity. Entity includes company, partnership firm, and trust and so on.

- l. The Inland Revenue Department is responsible for the implementation and imprisonment.
- m. This act has determined the rate of income tax itself for the first time, which was used to be determined by the Finance Acts in the previous years.
- n. A person has been defined as a resident whose place of abode is in Nepal and who lives in Nepal at any time or who lives in Nepal for 183 days or more within the income year or who is an employee of HMG posted abroad during the income year.
- o. The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- p. Donation amount can be deducted as a 5% of adjusted income or Rs. 100,000 or actual paid amount whichever is less.

## **2.2 Review of Related Studies**

Since 1959/60, income tax was started in Nepal. After its establishment, many individuals and institutions have studied in this subject regarding legal aspect, administrative problems, historical aspect, trend of income tax and income tax structure etc. They have made appreciable efforts in the field of income tax.

Many dissertations, books, articles and newspaper were reviewed while preparing this thesis. Many books in this field are written to fulfill the course requirement of Tribhuvan University. An attempt is made here to review some of the books, thesis, articles and reports, which have been written, in field of income tax in Nepal.

### **2.2.1 Review of Books**

Mr. Kedar Bahadur Amatya (1965) wrote a book entitled “Nepalma Ayakar Byabashta”. In his book, Mr. Amatya gave a sample description of “Nepal Income Tax Act 1962” with some examples how taxable incomes are derived from different sources of income. In his book, Amatya has analyzed, basically the legal aspect of the income tax. This book is 43 years old and all things mentioned in it are not suitable at present. It has become the historical document in the field on income tax.

Dr. Govinda Ram Agrawal (1980) wrote a book entitled “Resource Mobilization in Nepal”. This book was published by CEDA, Kathmandu. Dr. Agrawal contributed towards the new dimension inside of Nepalese income taxation. Dr. Agrawal in his book, explains about resource mobilization through income tax, Nepalese fiscal policy, effective tax system and tax policy, income tax system in Nepal, role of income tax in Nepalese tax structure, administrative and legal aspects of income tax in Nepal. His main contribution from this book is concerned to the empirical investigation of facts and figures about the income tax in Nepal. He also calculates the responsiveness and various projections for future about income.

Santosh Raj Poudel (1993) wrote a book entitled “Income tax laws and Practice”. Poudel has described the most of the related terms in respect with assessment of different income tax. This book has been divided in nine chapters. Mr. Poudel has described the meaning of tax, basic feature of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of taxpayers, Industrial Enterprises Act 2049, and income from remuneration. Methods of computing net income from remuneration, industry, business, profession and vocation, tax deduction at source, income tax authorities, power of tax office, penalty and appeals, rights and duties of tax payer have also been described in this book.

Rup Bahadur Khadka (1974) wrote a book entitled “Nepalese Taxation: A path for reform”. Khadka dealt with both national and local taxes and tax administration in Nepal. This book traces the path of evolution of Nepalese tax system. It evaluates the Nepalese tax system on the basis of conventional, theoretical concepts and suggests measures for its improvement. Suggested measures are modest, in order to provide a feasible solution for the near future. The study is divided into seven chapters. Mr. Khadka has described general economic condition of Nepal and analysis of performance of Nepalese economy in recent years. He also concerned, respectively with commodity taxes, income and property taxes. He also traces the development of local taxation in Nepal and then examines its problem. Tax administration and the strategy for tax reform have also analyzed in his books.

Kamal Deep Dhakal (2001) wrote a book entitled “Income Tax and House and Compound Tax Law and Practice”. Dhakal has described the various provisions under ITA 1974. This is divided into four parts. He has described about tax, income tax in Nepal, house and compound tax and value added taxes etc.

This book is based on B. Com. and MBS syllabus. It is useful for information about income tax, property tax and VAT.

K. P. Aryal and Surya Prasad Paudel (2003) wrote a book entitled “Taxation in Nepal”. This book is based on ITA 2002. This book is divided into three parts. It has described about tax, features of ITA 2058, capital receipt or revenue receipt, special provision for entities and retirement saving, classification of taxpayers, head and sources of income, assessment, collection and recovery, tax authorities and their powers, rights and duties etc.

This book is also based on the B.B.S. level. Method of income tax has been dealt with numerical illustration. This book is useful for academic purpose and practical point of view.

Dr. Chandramani Adhikari (2003) wrote a book entitled, “Modern Taxation in Nepal”. Dr. Adhikari has described the provisions and laws related to income taxation in Nepal according to new ITA 2002. This book has been divided into five chapters. First chapter has described about theoretical concept of taxation. Second chapter has described about income tax system in Nepal. In this chapter, writer has described about head and sources of incomes, employment or remuneration income, tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been described about property tax, house and compound tax etc. Windfall gain tax and other provisions have been described in fifth chapter.

This book is written for students of TU, especially for BBS, MBS and MPA students. However, it is useful to taxpayer, tax administration and others.

Bidhyadhar Malik (2003) wrote a book entitled “Nepalko Adhunik Kar Parnali”. Mr. Malik has described about provision made under income tax law and method of income tax assessment. This book is divided into twenty five chapters. Mr. Mailk has described about development of income tax system in Nepal, computation of income, exempt amount, capital gain, special provision regarding natural person and entities, international tax, tax administration, payment of tax, tax on VAT, assessment of depreciation etc. His book is more helpful to know about general information and provision made under income tax act 2002.

Mr. Narayan Raj Tiwari in his book “Nepalma Aayaker Baywastha” has given the detail process and procedures of assessment of income taxation in Nepal with reference to income tax act 2031 (with amended). He has simply and clearly



discussed about income assessment processes and procedures in practical way. This tax book is very helpful to the tax payer as well as to the employees of the tax department.

The comprehensive study on the income tax of Nepal named “Resource mobilization for development” of Dr. Govind Ram Agrawal and published by CEDA Kathmandu is very helpful for the study of income tax system in Nepal. In his research, he has analyzed the legal aspect, administrative aspects and important facts of income tax in Nepal.

Ram Bahadur Thapa (1993) found in his study that the fiscal deficit from 1980/81 to 1990/91 increased by 7.66 times more. He identified that failure to locate new taxpayers, maintaining proper records and defective personnel management were the main problems of income tax administration according to his study. The tax administration was unable to enhance the payer’s compliance because of the complicated procedure, delay and so on the recommended months times for assessment and favored self assessment.

Krishna Kumar Shakya (1994) has concentrated his study mainly on the contribution of the direct tax and indirect tax and on causes of government inefficiency in income tax administration. He found the ratio of income tax to GDP, total revenue and direct tax revenue was in increasing trend. He suggested for program oriented fiscal policy and recommendation that VAT be major source of indirect tax in liberalized economy.

Hari Bahadur Shrestha (1994) gave emphasis to find the historical development and the role of income tax structure of tax. He noticed the weakness of income tax regime to reduce the gap between rich and poor. He suggested taxing on the income of agriculture and capital gain from higher class. He found that Nepalese tax payers had positive attitude towards the 10% of a total house and rent

deduction for repair in his study. He suggested for management by objective technique to motivate the government personnel and for salary increment based on inflation.

Shiva Narayan Shanu (1995) has found that only 0.35% of total population came under the categories of taxpayers during his study period. He also showed the contribution of income tax in the total tax revenue and total revenue was 9.95% and 7.94% respectively. Income tax had been gradually increasing except for 1990/91 and 1991/92 during his study period and income tax was in the fourth place in the tax structure. The individual taxpayers had higher contribution than the wage earners.

In the report “Review of Tax System” prepared and submitted by M.K. Dahal (2052) to MOF, H.M.G/N covered the various issues relating to tax such as low tax elasticity, higher burden of indirect tax to direct tax, lack of voluntary compliances, leakage etc. The exemption of income from agriculture sector, which contributed about 40% of total GDP, was marked as a main reason of narrow base. Including agriculture sector and electricity sector which contributed 52% to GDP were exempted from income tax and only large industries, mines, construction, trade, hotel and restaurant which contributed 48% income to GDP were under income tax. All the provision made the tax base very narrow. The tax rates were unnecessarily high. Only 73,000 taxpayer’s income was demarked which was less than 1% of the economically active population. Real per capita income growth rate at that time was only 0.30%, which showed that low taxable capacity of people. This report suggested increasing the total number of taxpayers and to increase the per capita income.

This study further suggested about 40% extra resource mobilization if the proposed tax policy and program were in place. This recommended various practical ideas to widen income tax base like 20% exemption from total tax

assessment might be given to make self-assessment effective. It suggested raising the exemption limit of income tax a person to Rs. 35,000 and the family to Rs. 50,000 and exemption should be based on inflation rate.

Govind Bahadur Thapa (2000) has described the various causes of poor resource mobilization in Nepal. The agricultural income which contributed about 40% income of GDP being tax free, about 50% of total population being below the poverty line, tax holiday for new industries, lack of political commitment were the major causes which he concerned in his writing. He identified that one of the main problems of revenue mobilization was the narrow base and decreasing tax rates. He suggested improving the whole economic situation and the political commitment to mobilize resource efficiently. Otherwise any tax measures would be worthless.

Puspa Kandel (2001) had criticized the income tax act 2001 on several grounds. Exemption of agricultural income from income tax, export duties levied on export, inequality between different capital earned income i.e. tax on interest, dividend and capital gain, withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issues that raised in his article. He also said that tax regime creates more burden than the former one.

Satyandra Timilsina (2001) had concentrated his study mainly in the analysis of exemption and the deduction of income acts of Nepal. In his study he recommended to increase the exemption limit for an individual to a minimum of Rs. 90,000 and for family exception based on the number of dependent children and parents. He further recommended levying income tax on agriculture, capital gains and other source to raise tax base. He emphasized on higher contribution of corporate income tax compared to individual income tax.

Revenue consultation committee studied the overall taxation situation in depth. This report suggested widening the income tax base by including all kind of taxpayers and income. For this, report suggested to make the act more transparent and clear in order to attract foreign and domestic sector. This report suggested to implement account based VAT more effectively. For small taxpayer, sales turnover having up to Rs. 2 millions, tax collection should be based on their sale and purchase description. For income taxation, self-assessment was fully recommended. This report suggested bringing all potential payers into the tax net to widen the tax coverage including agriculture, electricity and other sectors. To increase the voluntary compliance this report highly emphasized to simplify the tax policy. Income tax exemption limit was suggested to increase taking into consideration the purchasing power and inflation. The report also certified Rs. 55,000 for individual and Rs. 75,000 for couple and family as an exemption limit. The report gave suggestion for HMG to expand the permanent account number (PAN) outside the valley and reduce the land and house registration rate and to rationalize the tax deduction at source (TDS).

Jayanti Poudel (2002), she found that within the direct tax, income tax was the largest source, which contributed more than 88% in 1999/2000. The contribution of income tax to direct tax has increased significantly since its introduction. In terms of the consumption of income tax, the share of corporate income tax was 59.80% and that of individual income tax was 31.20% in 1999/2000. She had hoped that the coverage of income tax would be widened after the implementation of income tax act 2001.

She had added that the Nepalese tax administration had been attempting to modify itself to meet the pressing challenge brought about by change in technology and economic polices. However, still its working is traditional and the cost of administration has not been brought to the satisfactory level.

Surya Prasad Marthatta and Ananda Prasad Khatiwada (1970) in their book named “Fundamental of Nepalese income tax: with up to date financial directive and regulation” has been reviewed. They have described the legal provisions relating to income tax and practical aspects. They have described the Income Tax Act 2020. This act was not beneficial because of changes in tax law. They were fully based on campus based syllabus.

Nagendra Bahadur Pradhanga (1993) had explained the provision and law related to income taxation in Nepal. His book is informative rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of income tax.

Santosh Raj Paudyal and Pram Prasad Timilsina (1990) in their book named “Income tax in Nepal” described the theoretical and practical aspect of income tax. They were based on TU syllabus. They were unable to describe the tax structure of Nepal and the problems of income tax system.

Rup Bahadur Khadka (1994) had shown VAT as a long term tax for Nepal, income tax and composition tax revenue from 1950/51 to 1991/92 in his book named “Nepalese Taxation : Path for Reform”.

In his book, he had described the introduction, development, existing structure, main problems and possible direction of reform. He had identified the major problem were weak tax administration, imbalance and inadequate organizational pattern, lack of adequate information system, lack of coherent tax policy, inadequate physical and other facilities. Although he had not mentioned the legal provision of income tax, his book is very useful in various aspects of income tax.

Narayan Raj Tiwari (1993) had explained legal provision regarding income tax system in Nepal. He described the process, provisions and methods to assess income tax with numerical examples. His book is based on TU syllabus. He had not shown the role of income tax in economic development and problem of income tax system.

Pawan Raj Ojha (1993) had shown the various act and law of income tax in his book. To describe the various act and law, he had taken many tax cases. This book may be beneficial to understand income tax laws. But he had not analyzed the problem of income tax and role of income tax.

Kamal Deep Dhakal (2001) had presented his enlarged and modified edition of his book including VAT. This book was prescribed by TU syllabus of BBS and MBS. He had described the legal provision relating to income tax with numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem and weakness of income tax.

Bidyadhar Malik (2003) has described the legal provision relating to income tax. He has also described the historical prospects, weakness of income tax act 2031, some practical problem and different section of Income Tax Act 2058. His book is important to get knowledge about ITA 2058. He has presented various section of ITA 2058 with examples

Although he has presented the new ITA 2058 with some numerical examples, he did not mention the role of income tax, tax structure, he has not taken any empirical investigation.

Pushpa Raj Kandel (2003) in book “Tax Law and Tax Planning in Nepal”, which is based on government regulation and therefore is a very timely work and extremely helpful for the students of Master and Bachelor of Business Studies.

The second edition has attached unofficial translation of the tax laws both acts and rules related to value added tax and income tax appendices. But he had not analyzed the role of income tax, tax structure and problem of income tax.

Ishwor Bhattarai and Girija Prasad Koirala (2004) in their book “Tax Laws and Tax Planning” described the theoretical and practical aspect of income tax with related provisions. It was based on TU syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

### **2.2.2 Some Dissertations**

Gobindra Lal Shrestha (1967) had presented a master level thesis entitled “Income Tax in Nepal”. He has discussed about income tax act and rules, historical background and administrative aspects of income tax. In his research Shrestha has pointed out various recommendations. Some remarkable recommendations of the researcher were as follows:

- a. Income tax should be made more scientific, systematic and the social and economically justifiable.
- b. Exemption limit should be determined on the basis of member of the family.
- c. Tax should be charged on agriculture income.

Chandra Lal Shrestha (1977) had written a dissertation named, “A case study of income tax in Nepal”. Time covered by this thesis was eleven years from FY 1964/065 to FY 1974/075. It had concentrated to analyze the legal aspect, role, objective, and assessment procedure of income tax. Shrestha found the following matter:

- a. Low tax paying capacity and tax consciousness of Nepalese people.

- b. Lack of linkage between department and other government office with which taxpayer have transactions are the main reason of tax evasion in Nepal.

Rojalin Singh Suwal (1981) has conducted a research in the topic “Income tax system in Nepal”. Suwal conducted this study with objective of i) to show the problems of importance of income tax in solving the financial resource problem in Nepal. ii) To show the rate and per capita burden of income tax in Nepal. iii) To show the trend of income tax and economic effect of income tax on production in Nepal.

Some remarkable findings of the research were as follows:

- a. Income tax is paying less significant role in the tax structure of Nepal.
- b. The potential use of income tax in Nepal requires much reform.
- c. The method of accounting assessment and collection are very crude and unscientific because of the lack of proper records of taxable individual and their transactions.

Purushottam Subedi (1982) has presented a dissertation named “An analytical study of income taxation in Nepal”. Subedi in his study had analyzed the role, legal aspect, historical aspect, elasticity and cost of collection of income tax. Subedi had pointed out various findings and recommendations in his study. He found that income tax was providing larger share in total direct tax in comparison to other taxes. All findings indicated the repaid growth of income tax. But the study lacks the description of existing problems and future trends of income taxation.

Naina Nepal (1983) has conducted a research in the topic “A study on the problem and prospects of income tax in Nepal”. Nepal conducted this study with objectives of (i) To examine the existing position of income tax system in Nepal (ii) To examine the role of income tax in the overall tax structure. (iii) To analyze



the problems and prospects of income tax in Nepal. (iv) To highlight the future prospect of the Nepalese income tax. Nepal has recommended reforming the personnel management system. She also suggested keeping tax administration far from political influence.

Roshan Shrestha (1985) has presented a dissertation named “Income Taxation in Nepal”. He analyzed the tax structure and estimated the taxation as the transfer of resource from private to public sectors. He has accepted income tax as a significance tool for this purpose. He has also presented the classical tool for this purpose. He has also presented the classical view of minimum interference of the government and emphasized on the least taxation. His study also explains the function of the tax system in undeveloped countries, which are minimizing the wasteful expenditure, resource mobilization through saving and capital formation reducing inequality of reallocation of resources. His further descriptions are the causes of resource gap in Nepalese finance development of income tax, productivity of income tax yield with respect to GDP and its component. The tax effort ratio of Nepal is still low as compared to other developing countries. Individual taxpayer’s contribution of income tax is two third of the total income tax revenue.

Chudamani Shiwakoti (1987) has presented a dissertation named “Analytical Study of Income Tax in Nepal regarding Income Tax”. His study has mainly focused on the role of income tax in Nepal, structure of income tax, income tax rate, personnel management aspect of tax department, and legal aspect of ITA 1974. He recommended that tax must be introduced to collect the additional fund to meet the growing need of resources for development program.

The contribution of Shanti Baral (1989) is “Income Tax in Tax Structure of Nepal”. Her study basically analyzes the position of income tax structure and total revenue structure in Nepal. She states the problem of raising government revenue. Being the most important element in direct tax and equally significant for the

government revenue in Nepal, it does not seem to have achieved its significance. It is due to exempt in the agriculture income. She also finds the income tax from individuals had the highest contribution in Nepalese income tax structure among the various sources of income tax.

Sanjaya Acharya (1994) has presented a dissertation entitled, “Income Taxation in Nepal”. A study of its structure of income tax is followed by Nepalese income tax system or not. He has computed the elasticity and buoyancy of the Nepalese income tax of longer duration i.e. 25 years. He has identified recent problems of income taxation in Nepal.

Parmeshwor Panta (1996) has concluded a research entitled, “A Study of Income Tax Management in Nepal”. His study has tried to show the income tax system in Nepal and its role on national economy. He has identified various problems of income tax management in Nepal. Lack of managerial efficiency is one of the major problems of income tax in Nepal. Lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayer’s education, very narrow coverage of income tax is the major problems of income tax.

Puspa Raj Kandel (2000) also presented Ph. D thesis entitled “Corporate Tax System and Investment Behavior in Nepal”. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of this study were to evaluate corporate tax system in general, to examine sensitivity of certain policy like inflation, capital gain, dividend tax and interest tax etc. based on their impact of tax burden. He showed the relationship of private investment with Average Effective Tax Rate (AETR), Marginal Effective Tax Rate (METR) and tax incentives of Nepal.

Bibha Pradhan (2001) had conducted a research in the topic “Contribution of Income Tax from Public Revenue of Nepal with Reference to Nepal Telecommunication Corporation”. Pradhan, in this study has found that income tax was a suitable source of mobilizing internal resources. Contribution of income tax from PEs in Nepal was not significant during the study period due to poor achievement, weakness in government’s economic policy and deficiency in legislation. She also found that NTC has contributed highest income tax in total income tax revenue from PEs. NTC shared 44% share of total income tax revenue from PEs, which was 84% in the FY 1993/094. Except in FY 1991/092 and 1996/097, the collection of income tax from NTC has been increasing gradually during the study period.

Basanta Kumar Singh (2002) had conducted a research entitled, “A Study on Application of Best Judgment of Income Tax Assessment with Reference to ITA, 1974”. Need, provision and role of best judgment in income tax assessment are the objectives of the study. In this study he found that in Nepal, income tax assessments are mainly performed by committee. The data shows that above 70% of the total income tax assessment is finalized by committee. He also found that only 9.01% of the total income tax assessment was performed on the basis of account in 1990/091, which was 10.49% in 1991/092. In 1999/2000, its share remained only 3.89% of income tax assessment. He also discussed on the income tax assessment of Nepal, basis of assessment, necessary conditions for best judgment assessment, natural justice and best judgment etc. in this study.

Gobinda Lal Shrestha (1967) had tried to give some general ideas about tax relating to historical background and some problems existing in income tax system of Nepal in his dissertation. He had described the various provision of Income Tax. But it is not helpful to get knowledge about income tax at present.

Kedhar Bilash Pandey (1978) had described the brief review of Nepalese economy, resource mobilization structure of income tax, role of income tax, problem of income taxation in Nepal. He had given more emphasis on tax structure in Nepal. His finding was that income tax played a significant role in economic development of Nepal. He also described the problems of income tax in Nepal. The problems were lack of record keeping, lack of maintaining account of taxpayer, lack of responsibility and honesty of tax offices, lack of co-ordination between various tax department and revenue department. Among them some problems are relevant at present also.

Although he had explained various aspects of income tax in Nepal, he had not mentioned the legal provision relating to income tax and empirical investigation.

Gagan Kumar Tuladhar (1979) had shown the trends of revenue from income tax, per capita burden of income tax and tax as percent of GDP etc. He had shown the growing resource gap problems in the Nepalese fiscal system. He had also described the role of income tax in the mobilization of domestic resources for the economic development. To show the increasing trend of income tax except the year 1977/078 he had used elasticity and buoyancy test. To calculate elasticity and buoyancy of income tax he had used a formula i.e.  $\log y_t = \log a + b \log y_{t-1} + ut$ . He had also shown the legal aspect and problems of income tax in his dissertation. But he had not shown other aspect like administration, evasion etc.

Roshni Shrestha (1981) in her study "Income Tax in Nepal" had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax. She has also described her capita burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reason of tax

evasion were low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment, widespread illegal business activities etc. She found that the tax administration is not efficient.

Although she had given various useful suggestions about the income tax like scientific method should be applied for the collection of tax, administration should be efficient, income tax law should be simple and easy, tax base should be broader etc. She had mentioned the legal provision relating to income tax and empirical investigation.

Sambhu Nath Regmi (1986) wrote a book entitled “The role of Income Taxes in Nepal” had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problem of income tax etc. He had more concerned on the study of tax structure i.e. share of indirect tax and share of direct tax to total tax revenue. He had noticed the problem of income tax which were assessment delays, tax evasion, and lack of maintaining the record of taxpayers, lack of responsibility and honesty among the tax officer, corruption, lack of co-ordination between various revenue and non – revenue department, leakage in personal income tax collection etc.

His suggestion about income tax were : income tax should be clear, application of scientific assessment method, simple and easy procedure of tax payment, honest and efficient staff, tax holiday to new industry, co-ordination between staff and department etc. Although his suggestions were useful he had not mentioned legal provision relating to income tax, any numerical example, provision of fine and penalties.

Chudamani Shiwakoti (1987) wrote a book entitled “An Analytical Study of Income Tax in Nepal” had shown the role of income tax, tax structure of Nepal, legal aspect of ITA 2031, problem of income tax administration in Nepal etc. He

found that the role of income tax were for economic growth, equitable distribution and stabilization growth. He had noticed that the problem of income tax were defective personnel management, lack of public information, delay in tax assessment, lack of up to date role of existing as well as potential taxpayers etc.

He had identified that the major problem of ITA 2031. They were complicated language, highly use of best judgment assessment method for the assessment of tax, no compulsion to maintain books of account, ineffective use of fines and penalties, no compulsion of auditing of account of all type of business, assessment delays, silence about scientific research, lack of weighed deduction, no provision of any kind of allowance, no provision about illegal business etc.

He emphasized more on legal provision relating to income tax. He also described fine and penalties. He also suggested that the penalties should be imposed to taxpayer who does not maintain accounts. He had not used any numerical examples nor had he conducted any empirical investigation.

Shanti Baral (1989) wrote a book entitled “Income tax in Tax Structure of Nepal” had described the contribution of income tax in the structure of government revenue of Nepal. She had found that the share of income tax to total government revenue was increasing. She also had identified the reasons of tax evasion which were: lack of clear and comprehensive definition of income, lack of efficient tax administration, lack of punishment to tax evaders, tax paying capacity and the consciousness among the taxpayers was low, lack of scientific method of tax collection etc.

Although she had suggested that the tax administration should be honest and efficient, tax evaders should be punished, research unit should be established, corruption should be stopped, scientific method should be used in tax collection

etc. She had not identified the major problem of income tax system, had not mentioned the legal provision relating to income tax and numerical examples.

Hari Bahadur Bhandari (1994) wrote a book entitled “Contribution of Income Tax to Economic Development of Nepal”. He concentrated mainly on the contribution of income tax to public revenue. He noticed that the actual collection of revenue through income tax is lower than its estimated targets because of poor tax paying habit of Nepalese taxpayers, poor tax administrative system, and widespread evasion of income tax and so on. His study had been conducted with purpose of examining the income tax structure, trend of income tax collection and the above problem and to make suggestions to solve this problem. He had not mentioned the legal provision of income tax and problem of income tax system.

Sanjay Acharya (1994) wrote a book entitled “Income Tax in Nepal: A study of its structure, productivity and problems” had described that the structure of income tax, productivity of income tax and problem of income tax. He examined the three main objectives of income tax, which are as follows:

- a. To reduced inequality of income distribution.
- b. To collect more government revenue.
- c. To check inflation.

He had also presented some numerical and diagrams of structure and productivity of income tax. He had not explained the provisions relating to income tax, his study about income tax was not so detailed.

Shiva Narayan Shambu (1995) wrote a book entitled “Contribution of Income Tax in National Revenue of Nepal” had focused on role and contribution of income tax in the process of economic development. He had found only 0.35% of population in Nepal comes under the category of taxpayers. He had also

observed that in the composition of government revenue of Nepal, income tax comes in the fourth place from the viewpoint of different items contribution. Custom, excise and sales tax occupied first, second and third place respectively. He had not mentioned the provision relating to income tax.

Parmeshwor Pant (1996) wrote a book entitled “A Study on Income Tax Management in Nepal” had explained the role of income tax in national economy and income tax management in Nepal. He conducted an empirical investigation of income tax management in Nepal. He found the major problem of income tax in Nepal, which were, lack of managerial efficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax etc. He had not mentioned the legal provisions relating to income tax.

Krishna Prasad Timilsina (1997) wrote a book entitled “Tax Structure of Bhajhang district with reference to National Tax Structure of Nepal” had emphasized on tax structure in his study. His finding about the correlation coefficient between Bhajhang district and nation was positive on tax revenue and total revenue. He had not mentioned the legal provision relating to income tax, problem of income tax, as well as provision of fine and penalties.

Raj Kumar Bhattra (1997) wrote a book entitled “Effectiveness of Corporate Income tax in Nepal” had explained the history of income tax, corporate income tax, legal provision relating to income tax, administrative aspect of income tax, tax structure and government mechanism. He had conducted an opinion survey. He had found the government policies, acts, rules and regulation concerned with the corporate income tax was not effective in increasing tax paying habit in Nepal. He found that the major problem of administration was corruption.



His study was fully based on the corporate income tax. He identified the problem of tax administration as a corruption. He had not described the other income tax and weakness of tax system. This study is very useful to know the corporate income tax.

Binita Shrestha (2001) wrote a book entitled “Revenue Collection from Income Tax in Nepal, problem and prospectus” described the conceptual framework and legal provision, structure of income tax in Nepal, income tax administration in Nepal: an empirical investigation and problem and prospectus of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend.

She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of consciousness of taxpayers, unscientific tax assessment procedure, widespread evasion and avoidance of income tax, inefficient tax administration, instability in government policy etc.

She had taken 60 people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation coefficient to prove the hypothesis on the problem of income tax system.

Although she had suggested about the income tax system like extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to the people, she had not taken any investigation about the provision of fine and penalties.

Bhibha Pradhan (2001) wrote a book entitled “Contribution of Income Tax of Public Enterprises to the Public Revenue of Nepal (with reference to NTC)” had explained the conceptual framework of public enterprises and the Nepal

telecommunication corporation, conceptual framework of income tax, contribution of income tax to the public revenue and share of NTC to income tax.

Her suggestion was, about the income tax system, promotion and reward to efficient and honest personnel, motivation to personnel, tax education to tax payer and officer, strict action to corruption, increase the public participation. Although she had emphasized more on the study of NTC, she had not mentioned the legal provision relating to income tax and provision of fine and penalties.

Jayanti Poudel (2002) wrote a book entitled “Income Taxation in Nepal: A case study of its structure and productivity” had explained the historical prospects, tax structure, elasticity and buoyancy of income tax, role of income tax administration in her study.

She had more emphasized on income tax structure, contribution of income tax. She found the working procedures were traditional and the cost of administration had not been satisfactory level. Although her findings and suggestion were usable, she had not mentioned the problem of income tax system and provision of fine and penalties.

Govinda Ram Agrawal (1980) wrote a book entitled “Resources Mobilization for Development” had described the resource mobilization through income tax, fiscal policy, and role of income tax, legal provision relating to income tax, legal aspect of income tax, and administration aspect of income tax etc. He had shown per capita income, buoyancy coefficient of income tax, burden of income tax, elasticity and coefficient of income tax etc. by calculation.

He had identified the major problem in income tax system, which is inefficient of tax administration and tax evasion. He found that, there were no integrated programs for taxpayers’ education, assistance, guidance and

counseling. He found the major problem of tax were administration, corruption, unfair dealing, harassment and incompetent personnel etc.

He had taken empirical investigation about various fields of income tax. About the fines and penalties, 54% think that there should be heavy penalty for non-maintaining accounts among total respondents. He had suggested heavy penalty should be imposed.

This study is a comprehensive and included various aspects of tax system of that period, but all things mentioned in it are not fully relevant today. Some of the problem identified in it is still in existence.

Banshidhar Ghimire (1993) wrote a book entitled “Principle of Direct Tax and Provision of Direct Tax Rajaswa”. He had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, index of income tax in Nepal, contribution of income tax to national revenue, errors of past provision, some steps of administrative improvement etc. He found that the tax covered very low portion of total revenue because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. He had also noticed some errors of provision relating to income tax. They were, progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holiday and rebate, provision of low additional fee as compare to market interest rate etc. He also suggested some step of administrative improvement. They were provision of income assessment committee, flat rate of tax to small taxpayers, establishment of tax office etc.

Govinda Bahadur Thapa (2002) wrote a book entitled “Business Age”. He had described the tax system, features of tax and causes of reform in tax. He had criticized the tax system as too many and too high rates, multiple objectives of

taxes, scheduler rather global approach to income taxation, too much income brackets and high progressive, complicate and ambiguous tax law.

He had identified the areas for the reform of tax system in Nepal. They were low rates on broad base, simplicity and neutrality, gradual abolition of exemption, deduction and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to brewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and automobiles spare parts, abolition of surcharge and additional duty system to make the tax system more wider, making the tax system internationally compatible to attract foreign investment.

Thaman Sherchan (2003) wrote a book entitled “An Analysis of Fines and Penalties Regarding to Income Tax System of Nepal” had described the provision of fine and penalties regarding income tax in Nepal. His research study was limited to whether the specific provision regarding fine and penalties were right or wrong but not mentioned the reasons for those specific provisions to be right or wrong. He suggested that the provision of fines and penalties might play important role to increase the tax paying habit of Nepalese people.

In this way various books, dissertation reports and articles published in journals and newspapers are reviewed while preparing this dissertation. Most of them are concentrated on the legal, administrative, assessment procedure, income tax system and structure of tax in Nepal. Some of them are related on the syllabus of Bachelor and Master Level. Most of the research studies have identified the major problems of Nepalese income tax system in evasion at high level and ineffective tax administration. If administrative aspects of Nepalese income system can be improved, the problem of tax evasion may be controlled

automatically. There is no any research study about fines and penalties, which plays important role to collect tax revenue

### **2.2.3 Review of Reports**

Dr. Govinda Ram Agrawal a senior research officer of CEDA had conducted a research on a topic, “Resource Mobilization for Development: The Reform of Income Tax in Nepal”. CEDA Kathmandu published this report in 1978. This study focused the various aspects of income tax in Nepal. Some of the important objectives of this study were as follows:

- a. To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.
- b. To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- c. To examine the ways and means for increasing tax consciousness in the Nepalese public.

Some remarkable findings and recommendations of the reports were as follows:

#### **Findings:**

- a. Needs for additional resource mobilizations were growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
- b. Income tax has been a fast growing category of tax revenue in Nepal.
- c. The individual taxpayers contributed more than 50% of the total income tax revenue.
- d. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01.

### **Recommendations:**

- a. Additional domestic resource should be mobilized through taxation.
- b. Tax structure of Nepal needs to be redesigned in order to increase the role of direct tax.
- c. Income tax should be reformed in Nepal. (Agrawal 1978)

Revenue consultation committee has studied the over all taxation situation in 2001. This report suggested widening the income tax base by including all kinds of taxpayers and find out the taxpayers of new sector. The report suggested making the act more transparent and clear in order to attract foreign and domestic investors. This report suggested to implement account based VAT more effectively. For small taxpayers having up to Rs. 2 million, tax collection should be based on sale and purchase description of their. For income taxation, self-assessment was fully recommended. Income tax exemption limit was suggested to increase taking into consideration the purchasing power and inflation. This report also certified Rs. 55,000/- for individual and Rs.75,000/- for couple and family as exemption limit. The report gave suggestion for HMG to expand the Permanent Account Number (PAN) outside the valley and reduce the land house registration rate and to rationalize the tax deduction at source. (TDS)

#### **2.2.4 Review of Articles**

Dr. Govinda Bahadur Thapa (2001) wrote an article entitled “Practical Issues in Income Taxation” in Rajaswa. Thapa had focused that income tax is an important source of revenue of the modern government. This tax is not only for revenue but also for attaining equity. However being a direct tax on income and profit, there are several practical issues to be settled before it becomes revenue productive as well as equity achiever. Defining taxable income and tax paying units determining appropriate rate structure and method of assessment are some of

such issues, which are instrumental to make the income tax system effective. This article also analyzes and explains the theoretical basis to settle these issues.

Puspa Raj Kandel (2001) wrote an article entitled “Draft of Income Tax Act 2001: Critical Analysis” in *Rajaswa*. Kandel has criticized the ITA 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. interest, dividend and capital gain) withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issues, he rose in his article. He also said, criticized tax regime creates more burden than the former one.

### **2.3 Research Gap**

All the research studies mentioned above are concerned with study of laws, provisions, administrative aspects and structure of tax. Most of them have indicated the inefficiency of tax administration. But major were based on theoretical facts of tax administration. They have identified the problem of income tax evaluation at high level and suggested for its control.

PEs are the backbone of the economy. Contributions of income tax from PEs play a vital role in the economy. Here, NTC is the main enterprise to contribute revenue for government. Most of the previous researcher did not study about contribution of income tax from PEs with reference to NTC.

Besides these, contribution of income tax from PEs with reference to NTC, to government revenue has also been outdone analytically. Likewise, structure of public revenue, contribution of PEs to public revenue or contribution of NTC to public revenue has been studied analytically and intensively.

## **CHAPTER – III**

# **RESEARCH METHODOLOGY**

This chapter is dedicated to research methodology applied in the study for the achievement of desired objectives:

## **3.1 Research Design**

It is an overall framework of plan study for the collection and analysis of data. This research attempts to analyze the secondary data. Hence, descriptive and analytical both the research designs have been used to analyze the contribution pattern of income tax from PEs to public revenue of Nepal with reference to NTC.

## **3.2 Populations and Sampling**

The present public enterprises are the population of the study and NTC is selected as sample for the evaluation. Similarly income tax of 19 years (beginning from Fiscal Year 1989/90 to 2007/08 is selected as samples for the purpose of the research.

## **3.3 Source of Data**

Most of the data were collected from secondary sources. The major sources of data are as follows:

- a. Economic surveys and Budget speeches of various years, MOF.
- b. Publication CEDA, TU (Tribhuvan University).
- c. Reports and records of Department of Taxation, MOF.



- d. Annual reports, news and records of NTC.
- e. Books related to Public Finance.
- f. Books related to Income Tax.
- g. Books related to Public Enterprises.
- h. National newspapers, Journals, Souvenir and News magazines.
- i. Unpublished dissertation.
- j. Extensive library research at Tribhuvan University, Central library and CEDA library etc.
- k. Various websites.

### **3.4 Procedure of Data Collection**

This study is mainly based on secondary data, obtained from various sources mentioned above. Besides, a detailed view of literature had been conducted in order to collect relevant data and information. Such view materials are mainly collected from central library of TU, Library of Central Department of Management, NTC library (Bharekali), Internal Revenue Department (Lazimpat) and other public libraries.

### **3.5 Data Analysis Procedure**

It is observed that collected data does not depict the result itself. To draw the required conclusion from the collected data are classified, tabulated and analyzed in descriptive and analytical way. Likewise, the required accounting principle mathematical approaches and legal provision of ITA 2058 are taken into consideration in data analysis procedure.

### **3.6 Uses of Tools for Analysis**

The different tools are required for the analysis. These tools and techniques depend upon the nature of study.

The following tools are applied for the purpose of analysis:

- I) Average
- II) Percentage
- III) Regression Analysis
- IV) Least Square Method/ Trend Line
- V) Hypothesis i.e. F- Test

## CHAPTER – IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Income Tax Structure

##### 4.1.1 Government (Tax and Non- Tax Revenue)

The sources of government revenue are divided into tax revenue and non- tax revenue. The tax revenue is a composition of custom duty, excise duties, VAT, and land revenue, registration, income tax and other taxes. But non-tax revenue is composition of revenue from forest, dividend, royalty, sales of fixed assets, civil administration etc.

When the HMG of Nepal presented first budget in 1951/ 52, the revenue structure was typically that traditional economy with 73 percent of government receipts coming from non-tax structures and land tax.

Table 4.1.1 shows the composition of the total revenue of Government, which constitutes tax, and non-tax revenue from FY 1989/90 to 2007/08. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax revenue for the period 1989/90 to 2007/08 was 78.17 percent and average share of non-tax revenue was 21.83 percent. This indicates that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. Tax revenues have been placed as a major source to government revenue in Nepal.

**Table No. 4.1.1**

**Contribution of Tax and Non-Tax Revenue in Total Revenue of Nepal  
from the FY 1989/90 to 2007/08:**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>Tax Revenue</b>	<b>Non-Tax Revenue</b>	<b>Tax Revenue as % of Total Revenue</b>	<b>Non-Tax Revenue as % of Total Revenue</b>
1989/90	9,827.50	7,704.76	2,122.74	78.40	21.60
1990/91	10,730.90	8,177.40	2,553.50	76.20	23.80
1991/92	13,512.70	9,875.60	3,637.10	73.08	26.92
1992/93	15,148.40	11,662.50	3,485.90	76.99	23.01
1993/94	19,580.90	15,371.50	4,209.40	78.50	21.50
1994/95	24,605.10	19,660.00	4,945.10	79.90	20.10
1995/96	27,893.10	21,668.00	6,225.10	77.68	22.32
1996/97	30,373.50	24,424.30	5,949.20	80.41	19.59
1997/98	32,937.50	25,939.80	6,997.70	78.75	21.25
1998/99	37,247.30	28,752.90	8,494.40	77.19	22.81
1999/00	42,893.70	33,152.10	9,741.60	77.29	22.71
2000/01	48,893.90	38,865.10	10,028.80	79.49	20.51
2001/02	50,445.60	39,330.60	11,115.00	77.97	22.03
2002/03	56,229.90	42,586.90	13,643.00	75.74	24.26
2003/04	62,331.10	48,173.30	14,157.80	77.29	22.71
2004/05	70,122.70	54,104.70	16,018.00	77.16	22.84
2005/06	72,282.00	57,430.40	14,851.60	79.45	20.55
2006/07	87,199.70	71,973.40	15,226.30	82.54	17.46
2007/08	104,939.30	85,155.46	19,783.84	81.15	18.85

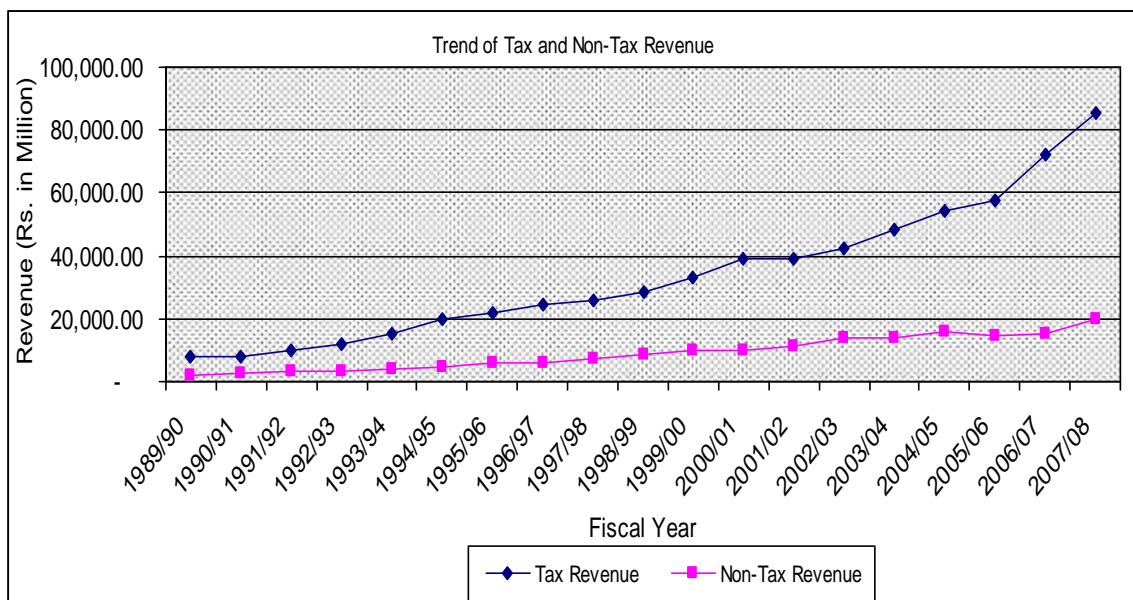
**Sources: Economic Survey of various years MOF, HMG/N**

From FY 1989/90 to 2007/08 the amount of tax revenue found increasing every year with the amount of Rs. 7704.76 millions to Rs. 85155.46 millions. But the figure in percentage of tax revenue in the total government revenue has been found fluctuating in different years. From FY 1989/90 its contribution was 78.40% and other till 3 years were less than 78.40%. From FY 1996/97 to 2003/04 its contribution was again decreased and came down to 77.29% of total revenue. The contribution of tax revenue to total revenue was maximum i.e. 82.54% in FY 2006/07 and minimum was 73.08 percent in FY 1991/92.

The trend of non-tax revenue collection was also increased during the study period 1989/90 to 2007/08 i.e. Rs. 2122.74 millions to Rs. 19783.84 millions respectively. The non-tax revenue collection of FY 1996/97, FY 2005/06 and 2006/07 was decreased than previous FYs but other FYs were in increasing trend.

The percentage contribution of non-tax revenue to total revenue was fluctuating trend during the study period. It is decreased to 17.46% in FY 2006/07 and was maximum to 26.92% in 1991/92. Figure 4.1.1 shows the trend of tax and non-tax revenue.

**Figure No. 4.1.1**



#### 4.1.2 Tax/GDP Ratio in Nepal

Nepal is one of the lowest taxed economies in the world. The moderate tax-GDP ratio ranged from 15 to 18 percent in other developing countries (World Bank 1991) but in Nepal, it is obvious from the fact that tax-GDP ratio never exceeded 10% except in FY 2003/2004 and average tax-GDP ratio were 8% in the year 1989/1990 to 2003/2004. Table 4.1.2 shows the scenario of tax-GDP ratio for reference period of 1989/1990 to 2007/2008.

**Table No.: 4.1.2**

**Tax Revenue as percentage of GDP from the FY 1989/1990 to 2007/2008**

(Rs. In Million)

<b>Fiscal Year</b>	<b>GDP</b>	<b>Tax Revenue</b>	<b>Tax Revenue as % of GDP</b>
1989/90	99,702.00	7,704.76	7.73
1990/91	116,127.00	8,177.40	7.04
1991/92	144,933.00	9,875.60	6.81
1992/93	165,350.00	11,662.50	7.05
1993/94	191,596.00	15,371.50	8.02
1994/95	209,974.00	19,660.00	9.36
1995/96	239,388.00	21,668.00	9.05
1996/97	269,570.00	24,424.30	9.06
1997/98	289,798.00	25,939.80	8.95
1998/99	330,018.00	28,752.90	8.71
1999/00	366,251.00	33,152.10	9.05
2000/01	393,566.00	38,865.10	9.88
2001/02	405,632.00	39,330.60	9.70
2002/03	435,531.00*	42,586.90	9.78
2003/04	472,424.00	48,173.30	10.20
2004/05	504,101.00	54,104.70	10.73
2005/06	582,950.00	57,430.40	9.85
2006/07	670,588.00	71,973.40	10.73
2007/08	820,814.00	85,155.46	10.37

**Source: Economic Survey of Various Years, MOF, HMG/N**

\* Revised Estimation

Note: GDP is taken as current price.

If the share of tax revenue as GDP is considered, it is not found satisfactory. From FY 1989/1990 to 1991/1992 it slowly decreased to 6.81%. Again it started

to increase from FY 1992/93 from 7.05% to 9.36% in the year 1994/95. There is a continuous fluctuation in the percentage of tax revenue of GDP. Some year it is increasing and in some year it is decreasing. The GDP ratio in Nepal was maximum to 10.73% in the FYs 2004/05 and 2006/07 and minimum 6.81% in the year 1991/92. The average tax GDP ratio in Nepal for the period of the year 1989/90 to 2007/08 is 9.06%.

### **4.1.3 Composition of Direct and Indirect Tax in Nepalese Tax Revenue**

The structure of Nepalese tax revenue can be presented in terms of consumption, income and capital based tax. Taxes on consumption are known as indirect tax and taxes on income as well as capital are known as direct taxes. Custom duties, excise, VAT, entertainment tax, hotel tax, air flight tax and road and bridge maintenance tax are included in indirect tax. Similarly, income tax, land tax, urban house and land tax, vehicle tax, interest tax, wealth tax and other taxes are included in direct tax. The structure of Nepalese tax revenue is presented in table 4.1.3 in terms of direct and indirect tax revenue from FY 1989/90 to 2007/08. From the table no. 4.1.3, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue. The average share of direct tax revenue in total tax revenue for the period 1989/90 to 2007/08 was 22.53% and the share of indirect tax revenue was 77.47%.

**Table No.: 4.1.3**

**Contribution of Direct and Indirect Tax to Total Tax Revenue**  
**From FY 1989/90 to 2007/08:**

(Rs. In Millions)

<b>Fiscal Year</b>	<b>Total Tax Revenue</b>	<b>Direct Tax Revenue</b>	<b>Indirect Tax Revenue</b>	<b>% of Direct tax in Total Tax Revenue</b>	<b>% of Indirect Tax in Total Tax Revenue</b>
1989/90	7,704.76	1,435.10	6,269.66	18.63	81.37
1990/91	8,177.40	1,369.70	6,807.70	16.75	83.25
1991/92	9,875.60	1,595.20	8,280.40	16.15	83.85
1992/93	11,662.50	2,036.20	9,626.30	17.46	82.54
1993/94	15,371.50	2,855.30	12,516.20	18.58	81.42
1994/95	19,660.00	3,849.30	15,810.70	19.58	80.42
1995/96	21,668.00	4,655.90	17,012.10	21.49	78.51
1996/97	24,424.30	5,340.00	19,084.30	21.86	78.14
1997/98	25,939.80	6,187.90	19,751.90	23.85	76.15
1998/99	28,752.90	7,516.10	21,236.80	26.14	73.86
1999/00	33,152.10	8,551.50	24,600.60	25.79	74.21
2000/01	38,865.10	10,159.40	28,705.70	26.14	73.86
2001/02	39,330.60	10,597.50	28,733.10	26.94	73.06
2002/03	42,586.90	10,105.70	32,481.20	23.73	76.27
2003/04	48,173.30	11,212.30	36,961.00	23.27	76.73
2004/05	54,104.70	13,071.09	41,033.61	24.16	75.84
2005/06	57,430.40	13,858.10	43,572.30	24.13	75.87
2006/07	71,973.40	18,980.30	52,993.10	26.37	73.63
2007/08	85,155.46	23,087.80	62,067.66	27.11	72.89

**Sources: Economic Survey of Various Years, HMG/N**



The volume of direct and indirect tax was Rs. 1,435.10 millions and Rs. 6,269.66 millions that is 18.63% and 81.37% of total tax revenue respectively in the FY 1989/90. The amount of direct tax was increasing every year except in the FY 1990/91 and FY 2002/2003. It was only Rs. 1,369.70 millions in FY 1990/91 compared to other years. It was highest in the FY 2007/2008 i.e. Rs. 23,087.80 millions. Whereas, if we see the amount of indirect tax, it is increasing every year. There is an increasing trend of indirect tax every year. It was least in the FY 1989/90 i.e. Rs. 6,269.66 millions and was highest in the FY 2007/08 i.e. Rs. 62,067.66 millions. If we see the percentage contribution of both direct and indirect taxes of total tax revenue, there are a lot of fluctuations in various years. The percentage contribution of direct tax in total tax revenue was highest in the FY 2007/08 i.e. 27.11% whereas it was least in the FY 1991/92 i.e. 16.15%. Similarly the percentage contribution of indirect tax in total tax revenue was highest in the FY 1991/92 i.e. 83.85% and least in the FY 2007/08 i.e. 72.89%.

Comparison of direct and indirect tax reveals that heavy reliance of economy on indirect taxation. To divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be focused on the sufficient resource mobilization through direct taxation.

#### **4.1.4 Contribution of Various Taxes as Percent to GDP**

Table 4.1.4 shows the contribution of various taxes as percent of GDP. During the study period, the contribution of tax revenue increased from 7.31% in 1989/90 to 10.20% in 2003/04, which was increasing at a slower rate. The contribution of indirect tax was about 3 times more than the direct tax during the year of study period. In 1989/90, the contribution of indirect tax and direct tax were 6.29% and 1.44% respectively which have increased to 7.56% and 2.81% in 2007/08.

**Table No. : 4.1.4**  
**Contribution of Various Taxes as Percent to GDP**  
**From the FY 1989/90 to 2007/08**

Fiscal Year	Tax Revenue as % of GDP	Direct Tax as % of GDP	Indirect Tax as % of GDP	Custom Duties as % of GDP	Excise Duty as % of GDP	Sales Tax/VAT as % of GDP	Land Revenue & Registration as % of GDP	Income Tax as % of GDP	Misc. as % of GDP
1989/90	7.31	1.44	6.29	2.69	1.10	1.66	0.45	0.95	0.47
1990/91	7.04	1.18	5.86	2.62	1.03	1.74	0.47	0.68	0.5
1991/92	6.81	1.10	5.71	2.32	0.98	1.96	0.44	0.62	0.5
1992/93	7.05	1.23	5.82	2.39	0.88	2.14	0.46	0.73	0.53
1993/94	8.02	1.49	6.53	2.74	0.83	2.45	0.43	1.01	0.56
1994/95	9.36	1.83	7.53	3.34	0.79	2.87	0.45	1.36	0.57
1995/96	9.05	1.94	7.11	3.06	0.81	2.69	0.45	1.47	0.61
1996/97	9.06	1.98	7.08	3.08	0.85	2.64	0.38	1.56	0.58
1997/98	8.95	2.14	6.82	2.93	1.00	2.46	0.35	1.73	0.53
1998/99	8.71	2.28	6.44	2.88	0.89	2.39	0.3	1.91	0.37
1999/00	9.05	2.33	6.72	2.95	0.85	2.69	0.28	2.06	0.25
2000/01	9.88	2.58	7.29	3.19	0.96	3.06	0.16	2.32	0.19
2001/02	9.70	2.61	7.08	3.12	0.94	2.95	0.28	2.2	0.21
2002/03	9.78	2.32	7.46	3.27	1.10	3.09	0.33	1.83	0.17
2003/04	10.20	2.37	7.82	3.29	1.32	3.06	0.36	1.86	0.15
2004/05	10.73	2.59	8.14	3.11	1.28	3.75	0.36	2.24	0.18
2005/06	9.85	2.38	7.47	2.63	1.12	3.71	0.37	2.02	0.13
2006/07	10.73	2.83	7.90	2.49	1.38	3.96	0.43	2.48	0.19
2007/08	10.37	2.81	7.56	2.57	1.36	3.63	0.36	2.32	0.65

**Source: Economic Survey of Various Years MOF HMG/ N**

**Notes:**

- I) Customs include: Imports + Exports + Indian Excise Fund + Others.
- II) Excise includes: Industrial Production + Liquor Contract
- III) Income tax includes: Income tax from Public Enterprises + Semi Public Enterprises + Private Corporate Bodies + Individual + Remunerations + Tax on Investment.
- IV) Miscellaneous includes: Entertainment tax + Hotel tax + Air Flight Tax + Contract Tax + Road and Bridges Maintenance Tax and Others + Urban house and land tax + Vehicle Tax + Other Taxes.

Contribution of Sales tax/VAT has occupied the highest position. The contribution from Sales/VAT to GDP varied from 1.66% to 3.96% from FY 1989/90 to FY 2007/08. Custom has occupied second position among the revenue. Contribution of custom to GDP varied from 2.32% to 3.34% from FY 1989/90 to FY 2007/07. Percentage contribution of excise to GDP increased from 1.10% in FY 1989/90 to 1.36% in FY 2007/08. The percentage contribution of excise to GDP is fluctuating. The percentage contribution of land revenue and registration decreased from 0.45% to 0.36% from FY 1989/90 to FY 2007/08.

The percentage contribution of income tax to GDP increased from 0.93% to 1.86% from 1989/90 to 2003/04. The average percentage contribution of income tax to GDP for 15 years is 1.48%.

#### **4.1.5 Composition of Indirect Tax**

The whole Nepalese tax structure is dominated by indirect tax revenue. Indirect tax includes sales tax, customs, excise, and entertainment tax. Nepalese tax revenue is dependent mainly on taxes on international trade and sales tax on goods and services supplemented by taxes on income and property to some extent. Nepalese tax structure is heavily dependent on indirect taxes, which contributed

72.89% of total revenue in FY 2007/08. Table 4.1.5 shows the composition of indirect tax from FY 1989/90 to 2007/08.

**Table No. : 4.1.5**  
**Major Sources of Indirect Tax and their Relative Percentage to Indirect Tax**  
**from the FY 1989/90 to 2007/08:**

(In Millions)

Fiscal Year	Indirect Tax Revenue	Total %	Custom	As % of IDT	Excise	As % of IDT	Sales Tax/VAT	As % of IDT	Contract Tax	As % of IDT	Other Indirect Tax	As % of IDT
1989/90	6269.66	100	2684.90	42.82	1097.00	17.50	1650.10	26.32	170.50	2.72	246.30	3.93
1990/91	6807.70	100	3044.30	44.72	1200.20	17.63	2026.10	29.76	173.30	2.55	363.80	5.34
1991/92	8280.40	100	3358.90	40.56	1414.30	17.08	2840.70	34.31	213.30	2.58	453.20	5.47
1992/93	9626.30	100	3945.00	40.98	1452.80	15.09	3538.20	36.76	293.00	3.04	497.30	5.17
1993/94	12516.20	100	5255.00	41.99	1592.50	12.72	4693.10	37.50	356.50	2.85	619.10	4.95
1994/95	15810.70	100	7018.10	44.39	1657.30	10.48	6031.70	38.15	505.20	3.20	652.70	4.13
1995/96	17012.10	100	7327.40	43.07	1944.30	11.43	6431.30	37.80	613.40	3.61	766.60	4.51
1996/97	19084.30	100	8309.10	43.54	2298.10	12.04	7126.50	37.34	621.30	3.26	836.00	4.38
1997/98	19751.90	100	8502.20	43.04	2885.80	14.61	7122.60	36.06	761.50	3.86	479.80	2.43
1998/99	21236.80	100	9517.70	44.82	2953.20	13.91	7888.20	37.14	618.00	2.91	265.90	1.25
1999/00	24600.60	100	10813.00	43.95	3127.60	12.71	9854.90	40.06	374.50	1.52	30.30	0.12
2000/01	28705.70	100	12552.00	43.73	3771.20	13.14	12048.00	41.97	304.00	1.06	30.60	0.11
2001/02	28733.10	100	12658.00	44.05	3807.00	13.25	11964.00	41.64	301.20	1.05	2.10	0.01
2002/03	32481.20	100	14236.00	43.83	4785.10	14.73	13460.00	41.44	-	-	165.80	0.51
2003/04	36961.00	100	15554.00	42.08	6226.70	16.85	14479.00	39.17	-	-	700.60	1.90
2004/05	41033.61	100	15701.60	38.27	6445.90	15.71	18885.40	46.02	-	-	0.71	0.00
2005/06	43572.30	100	15344.00	35.22	6507.60	14.94	21610.70	49.60	-	-	110.00	0.25
2006/07	52993.10	100	16707.10	31.53	9243.40	17.44	26558.90	50.12	-	-	483.70	0.91
2007/08	62067.66	100	21062.42	33.93	11189.56	18.03	29815.10	48.04	-	-	0.58	-

**Sources: Economic Survey of various years, MOF, HMG**

**Note:**

- I) Custom includes: Imports + Exports + Indian Excise Refund + Others.
- II) Excise includes Industrial Production + Liquor Contract.
- III) Other Indirect tax includes: Entertainment Tax + Hotel Tax + Air Flight Tax + Road and Bridge Maintenance tax and others.

The contribution of custom duties in indirect tax changed from 42.82% to 33.93% from FY 1989/90 to FY 2007/08. The average percentage contribution of custom duties to indirect tax was 41.40% during the study period.

Excise duty is fluctuating during study period. Its contribution to indirect tax had decreased from 17.50% in FY 1989/90 to 10.48% in FY 1994/95 and started to increase since then and in FY 2007/08 it provided 18.03% of indirect tax revenue.

The sales tax / VAT has become an important source of overall tax revenue with increasing trend, which contributed about 48.04% to indirect tax in FY 2007/08 compared to 26.32% in FY 1989/90.

The contribution of contract tax in indirect tax is almost same in most of the years with slight fluctuations. In the last few years there is no contract tax at all.

The contribution of other total indirect tax is fluctuating during the study period. In 1989/90 the percentage contribution of other indirect tax in total indirect tax was 3.93% than it started to increase and reached to 5.47% in FY 1991/92. Since FY 1991/92 it started to decrease and reached to .91% in the FY 2006/07.

#### **4.1.6 Contribution of Direct tax as % to GDP, Total Revenue and Total Tax Revenue**

Table 4.1.6 shows the contribution of direct tax as % of GDP, total revenue and total tax revenue from FY 1989/90 to FY 2007/08. Direct tax includes income tax, land revenue and registration tax, urban house and land tax, property tax, vehicle tax, house and land rent tax.

**Table No. : 4.1.6**  
**Contribution of Direct Tax as Percentage of GDP, Total Revenue and Total Tax Revenue of Nepal from the FY 1989/90 to 2007/08:**

(Rs. In Million)

Fiscal Year	Direct Tax Revenue	GDP	Government Revenue	Total Tax Revenue	Direct Tax as % of GDP	Direct Tax as % of Government Revenue	Direct Tax as % of Total Tax Revenue
1989/90	1,435.10	99,702.00	9,827.50	7,704.76	1.44	14.60	18.63
1990/91	1,369.70	116,127.00	10,730.90	8,177.40	1.18	12.76	16.75
1991/92	1,595.20	144,933.00	13,512.70	9,875.60	1.10	11.81	16.15
1992/93	2,036.20	165,350.00	15,148.40	11,662.50	1.23	13.44	17.46
1993/94	2,855.30	191,596.00	19,580.90	15,371.50	1.49	14.58	18.58
1994/95	3,849.30	209,974.00	24,605.10	19,660.00	1.83	15.64	19.58
1995/96	4,655.90	239,388.00	27,893.10	21,668.00	1.94	16.69	21.49
1996/97	5,340.00	269,570.00	30,373.50	24,424.30	1.98	17.58	21.86
1997/98	6,187.90	289,798.00	32,937.50	25,939.80	2.14	18.79	23.85
1998/99	7,516.10	330,018.00	37,247.30	28,752.90	2.28	20.18	26.14
1999/00	8,551.50	366,251.00	42,893.70	33,152.10	2.33	19.94	25.79
2000/01	10,159.40	393,566.00	48,893.90	38,865.10	2.58	20.78	26.14
2001/02	10,597.50	405,632.00	50,445.60	39,330.60	2.61	21.01	26.94
2002/03	10,105.70	435,531.00	56,229.90	42,586.90	2.32	17.97	23.73
2003/04	11,212.30	472,424.00	62,331.10	48,173.30	2.37	17.99	23.27
2004/05	13,071.09	504,101.00	70,122.70	54,104.70	2.59	18.64	24.16
2005/06	13,858.10	582,950.00	72,282.00	57,430.40	2.38	19.17	24.13
2006/07	18,980.30	670,588.00	87,199.70	71,973.40	2.83	21.77	26.37

2007/08	23,087.80	820,814.00	104,939.30	85,155.46	2.81	22.00	27.11
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**Source: Economic Survey of Various Years MOF, HMG/N**

Table: 4.1.6 shows the contribution of direct tax as % to GDP, total revenue and total tax revenue from FY 1989/90 to FY 2007/08. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax, house and land rent tax.

The percentage contribution of direct tax to GDP is fluctuating during study period. It was 1.44% of GDP in FY 1989/90 and reached to 2.81% of GDP in 2007/08. The average contribution of direct tax to GDP was 2.08% during the study period.

The percentage contributions of direct tax to total revenue are fluctuating during the study period. It was 14.60% in FY 1989/90 and reached to 22.00% in FY 2007/08. The average contribution of direct tax to total revenue is 17.65% during the study period.

The percentage of direct tax to total tax revenue is also in fluctuating trend. It was 19.70% in the year FY 1989/90 and reached to 27.11% in FY 2007/08. The average contribution of direct tax to total tax revenue is 22.59% during the study period.

#### **4.1.7 Composition of Direct Tax**

Table 4.1.7 shows that the compositions of direct tax from FY 1989/90 to FY 2007/08. In Nepalese tax structure, the major components of direct tax are income tax, land revenue, house and land registration. The contribution of income tax has been larger than the other component of direct tax.





**Table No. : 4.1.7**

**Components of Direct Tax and their Percentage Share from FY 1989/90 to 2007/08: (Rs. In Millions)**

<b>Fiscal Year</b>	<b>Direct Tax Revenue</b>	<b>Total %</b>	<b>Income Tax</b>	<b>% of Direct Tax</b>	<b>Land Revenue</b>	<b>% of Direct Tax</b>	<b>House &amp; Land Registration</b>	<b>% of Direct Tax</b>	<b>Others</b>	<b>% of Direct Tax</b>
1989/90	1435.10	100	951.20	66.28	74.60	5.20	377.10	26.28	32.20	2.24
1990/91	1369.70	100	784.00	57.24	82.10	5.99	456.60	33.34	45.80	3.34
1991/92	1595.20	100	897.30	56.25	64.80	4.06	571.30	35.81	61.80	3.87
1992/93	2036.20	100	1214.90	59.67	69.40	3.41	685.50	33.67	66.40	3.26
1993/94	2855.30	100	1929.60	67.58	61.00	2.14	772.20	27.04	92.50	3.24
1994/95	3849.30	100	2857.60	74.24	34.90	0.91	902.80	23.45	54.00	1.40
1995/96	4655.90	100	3518.60	75.57	18.20	0.39	1048.40	22.52	70.70	1.52
1996/97	5340.00	100	4218.40	79.00	5.90	0.11	1009.50	18.90	106.20	1.99
1997/98	6187.90	100	5008.80	80.95	3.60	0.06	1000.60	16.17	174.90	2.83
1998/99	7516.10	100	6293.50	83.73	1.40	0.02	1001.80	13.33	219.40	2.92
1999/00	8551.50	100	7539.10	88.16	4.60	0.05	1011.30	11.83	396.50	4.64
2000/01	10159.40	100	9116.90	89.74	5.10	0.05	607.80	5.98	429.60	4.23
2001/02	10597.50	100	8906.00	84.04	0.80	0.01	1131.00	10.67	559.70	5.28
2002/03	10105.70	100	7966.20	78.83	-	0.00	1414.30	14.00	725.30	7.18
2003/04	11212.30	100	8805.30	78.53	-	0.00	1697.50	15.14	709.40	6.33
2004/05	13071.09	100	11272.60	86.24	-	0.00	1798.20	13.76	-	0.00
2005/06	13858.10	100	11787.00	85.05	-	0.00	2070.00	14.94	-	0.00
2006/07	18980.30	100	16608.10	87.50	-	0.00	2355.00	12.41	-	0.00
2007/08	23087.80	100	19077.81	82.63	-	0.00	2940.74	12.74	-	0.00

**Source: Economic Survey of Various Years, MOF, HMG**

**Note:**

- I) Income tax includes income tax from: Public Enterprises + Semi Public Enterprises + Private Corporate Bodies + Individual + Remuneration + Tax on Interest.
- II) Other includes: Urban house and land tax + Vehicle tax + other taxes.

The contribution of income tax to direct tax revenue was 66.28% in FY 1989/90. It decreased and reached to 56.25% in FY 1991/92. It slowly increased and reached to 89.74% in FY 2000/01. Its percentage contribution increased in FY 2007/08 to 82.63%.

Contribution of land revenue to direct tax revenue was 5.20% in 1989/90. It started to decrease and reached to 0.01% in 2001/02. There is no contribution of land revenue after that.

Contribution of house and land registration tax to direct tax revenue is in fluctuating trend during the period of 19 years from FY 1989/90 to 2007/08. Its contribution was 26.28% in FY 1989/90, then decreased and reached to 12.74% in the FY 2007/08.

#### **4.1.8 Structure of Income Tax in Nepal**

The income tax structure of Nepal is the composition of tax from PEs, Semi PEs, Private Corporate bodies, Individuals, remuneration and tax on interest. Here PEs consists of 100% government ownership, Semi PEs include 51% government ownership. Private corporate bodies mean public limited companies. Individual denote sole traders, partnership, and private limited companies. Remuneration refers to salaries earned from government and non-government sectors. Structure of income tax in Nepal is presented below:

**Table No.: 4.1.8****Structure of Income Tax in Nepal from FY 1989/90 to 2007/08:****(Rs. In Millions)**

Fiscal Year	Income Tax	Total %	PEs Tax	As % of IT	Semi PEs	As % of IT	Pvt. Corporate Bodies	As % of IT	Individual Tax	As % of IT	Remuneration	As % of IT	Tax on Interest	As % of IT
1989/90	951.20	100	240.90	25.33	2.40	0.25	-	-	625.00	65.71	50.70	5.33	13.10	1.38
1990/91	784.00	100	216.20	27.58	2.70	0.34	-	-	531.20	67.76	49.90	6.36	37.80	4.82
1991/92	897.30	100	171.10	19.07	5.30	0.59	6.50	0.72	617.90	68.86	54.70	6.10	19.50	2.17
1992/93	1214.90	100	255.30	21.01	2.60	0.21	9.50	0.78	800.70	65.91	56.70	4.67	73.40	6.04
1993/94	1929.60	100	534.10	27.68	2.10	0.11	19.70	1.02	1184.80	61.40	63.80	3.31	96.70	5.01
1994/95	2857.60	100	860.20	30.10	-	-	440.10	15.40	1293.10	45.25	118.40	4.14	111.60	3.91
1995/96	3518.60	100	1144.50	32.53	-	-	563.90	16.03	1470.10	41.78	133.10	3.78	119.80	3.40
1996/97	4218.40	100	1231.10	29.18	-	-	858.40	20.35	1711.40	40.57	186.10	4.41	154.40	3.66
1997/98	5008.80	100	1317.80	26.31	-	-	925.10	18.47	2120.80	42.34	322.20	6.43	212.20	4.24
1998/99	6293.50	100	1526.50	24.26	-	-	1155.00	18.35	2772.70	44.06	393.50	6.25	319.50	5.08
1999/00	7539.10	100	2198.80	29.17	-	-	1339.50	17.77	3016.40	40.01	451.50	5.99	414.40	5.50
2000/01	9116.90	100	2928.00	32.12	-	-	1924.30	21.11	3201.86	35.12	597.30	6.55	463.90	5.09
2001/02	8906.00	100	1769.30	19.87	-	-	1412.00	15.85	4412.10	49.54	825.70	9.27	467.70	5.25
2002/03	7966.20	100	1251.10	15.71	-	-	1,236.30	15.52	3,362.30	42.21	1252.60	15.72	864.00	10.85
2003/04	8805.30	100	2056.60	23.36	-	-	1,531.30	17.39	3,533.40	40.13	1391.20	15.80	733.40	8.33
2004/05	11272.60	100	1331.56	11.81	-	-	2,467.62	21.89	3,871.68	34.35	1676.98	14.88	757.33	6.72
2005/06	11787.00	100	1858.88	15.77	-	-	3,537.45	30.01	4,234.65	35.93	1751.51	14.86	757.03	6.42
2006/07	16608.10	100	1018.32	6.13	-	-	5,711.30	34.39	2,028.86	12.22	2028.86	12.22	996.15	6.00
2007/08	19077.81	100	1839.29	9.64	-	-	7,110.48	37.27	5,971.20	31.30	2294.55	12.03	961.70	5.04

**Source: Economic Survey of Various Years, MOF, HMG/N**

Table 4.1.8 shows the structure of income tax in Nepal which presents that the total income tax increased in every FY except in the FY 1990/91, 2001/02 and 2002/03. It has increased from Rs. 951.20 millions to 8805.30 in FY 1989/90 to 2003/04. Maximum contribution is 19,077.81 millions in FY 2007/08.

The contribution of tax from PEs had decreased till FY 1991/92 i.e. Rs. 171.10 millions and then increased upto FY 2000/01 i.e. Rs. 2928 millions in FY 2000/01. Contribution of PEs tax on last three FY was in fluctuating trend i.e. Rs.1,858.88 millions, Rs.1,018.32 millions and Rs. 1,839.29 millions in FY 2005/06, 2006/07 and 2007/08 respectively. The percentage contribution of income tax from PEs to total income tax revenue was in fluctuating trend. The maximum contribution percentage is 32.53% in the FY 1995/96 and minimum is 6.13% in FY 2006/07.

The income tax from Semi PEs was not equal in each year. In FY 1991/92 its contribution was maximum i.e. Rs. 5.30 millions. Except in FY 1991/92 its relative share was fluctuating below Rs. 3 millions. Maximum percentage contributed of Semi PEs to total tax is 0.61% in the FY 1991/92.

The contribution of income tax from private corporation bodies to total tax revenue was very low in the FY 1991/92 i.e. Rs. 6.50 millions. But it then started increasing till the FY 2000/01. It was maximum in FY 2007/08 i.e. Rs. 7,110.48 millions. And for the last four years it was in increasing trend.

The contribution of income tax from individual to total tax revenue in FY 1990/91 decreased to Rs. 531.20 millions as compared to previous FY 1989/90. It increased to Rs 617.90 millions in FY 1991/92 and then to Rs. 4412.10 millions in FY 2001/02. In the last year of our study period i.e. FY 2007/08 it was Rs. 5,971.20 millions.

The contribution of income tax from remuneration was in fluctuating trend. The maximum contribution was Rs. 2,294.55 millions in FY 2007/08 and the minimum contribution was Rs. 49.90 millions in FY 1990/91. The percentage contribution of income tax from remuneration to total income tax was lowest to 3.31% in FY 1993/94 and maximum percentage contribution was 15.80 in FY 2003/04.

The income tax from interest was in fluctuating trend from FY 1989/90 to FY 1991/92 but afterwards it was in increasing trend till FY 2002/2003 but again it decreased in FY 2003/04. Minimum contribution from tax on interest was Rs. 13.10 millions in FY 1989/90 and maximum was Rs. 996.15 millions in FY 2006/07. The percentage contribution of income tax from interest to total income tax revenue was fluctuating during the period of FY 1989/90 to FY 2007/08. It was 1.38% of total income tax revenue in FY 1989/90 and then it reached to 5.04% in FY 2007/08.

#### **4.1.9 Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue**

Contribution of income tax to GDP, total revenue, total tax revenue and direct tax revenue is presented in table 4.1.9:

**Table No.: 4.1.9**

**Contribution of income tax to GDP, total revenue, total tax revenue and direct tax revenue from FY 1989/90 to FY 2007/08:**

(Rs. In Millions)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	Income Tax Revenue	% of IT on GDP	% of IT on TR	% of IT on TTR	% of IT on DT
1989/90	99,702	9827.50	7,704.76	1,435.10	951.20	0.95	9.68	12.35	66.28
1990/91	116,127	10730.90	8,177.40	1,369.70	784.00	0.68	7.31	9.59	57.24
1991/92	144,933	13512.70	9,875.60	1,595.20	897.30	0.62	6.64	9.09	56.25
1992/93	165,350	15148.40	11,662.50	2,036.20	1214.90	0.73	8.02	10.42	59.67
1993/94	191,596	19580.90	15,371.50	2,855.30	1929.60	1.01	9.85	12.55	67.58
1994/95	209,974	24605.10	19,660.00	3,849.30	2857.60	1.36	11.61	14.54	74.24
1995/96	239,388	27893.10	21,668.00	4,655.90	3518.60	1.47	12.61	16.24	75.57
1996/97	269,570	30373.50	24,424.30	5,340.00	4218.40	1.56	13.89	17.27	79.00
1997/98	289,798	32937.50	25,939.80	6,187.90	5008.80	1.73	15.21	19.31	80.95
1998/99	330,018	37247.30	28,752.90	7,516.10	6293.50	1.91	16.90	21.89	83.73
1999/00	366,251	42893.70	33,152.10	8,551.50	7539.10	2.06	17.58	22.74	88.16
2000/01	393,566	48893.90	38,865.10	10,159.40	9116.90	2.32	18.65	23.46	89.74
2001/02	405,632	50445.60	39,330.60	10,597.50	8906.00	2.20	17.65	22.64	84.04
2002/03	435,531	56229.90	42,586.90	10,105.70	7966.20	1.83	14.17	18.71	78.83
2003/04	472,424	62331.10	48,173.30	11,212.30	8805.30	1.86	14.13	18.28	78.53
2004/05	504,101	70122.70	54,104.70	13,071.09	11272.60	2.24	16.08	20.83	86.24
2005/06	582,950	72282.00	57,430.40	13,858.10	11787.00	2.02	16.31	20.52	85.05
2006/07	670,588	87199.70	71,973.40	18,980.30	16608.10	2.48	19.05	23.08	87.50
2007/08	820,814	104939.30	85,155.46	23,087.80	19077.81	2.32	18.18	22.40	82.63

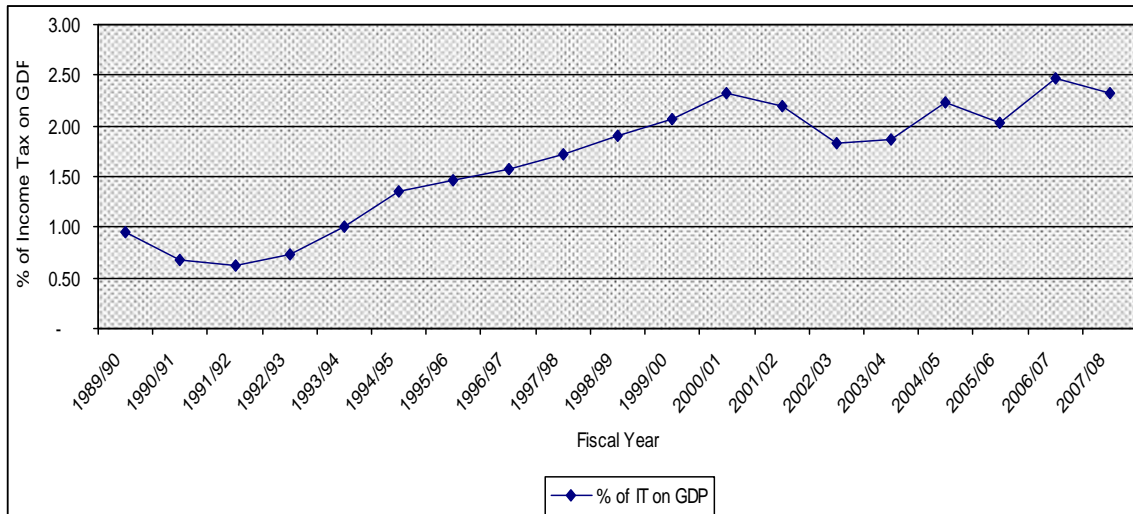
**Source: Economic Survey of Various Years, MOF, HMG/N**

#### **4.1.9.1 Income Tax on the Gross Domestic Product (GDP)**

The percentage contribution of income tax in comparison with GDP is presented in Table 4.1.9. The share of income tax in the GDP of Nepal is very low. The share of income tax of GDP lies from 0.62% to 2.32% during the study period. The share of income tax was 0.95% in FY 1989/90. It was 2.32% in FY 2007/08. Figure 4.1.2 shows relation of Income Tax to GDP.

**Figure No.: 4.1.2**

**Trend of Income Tax as Percentage of GDP**

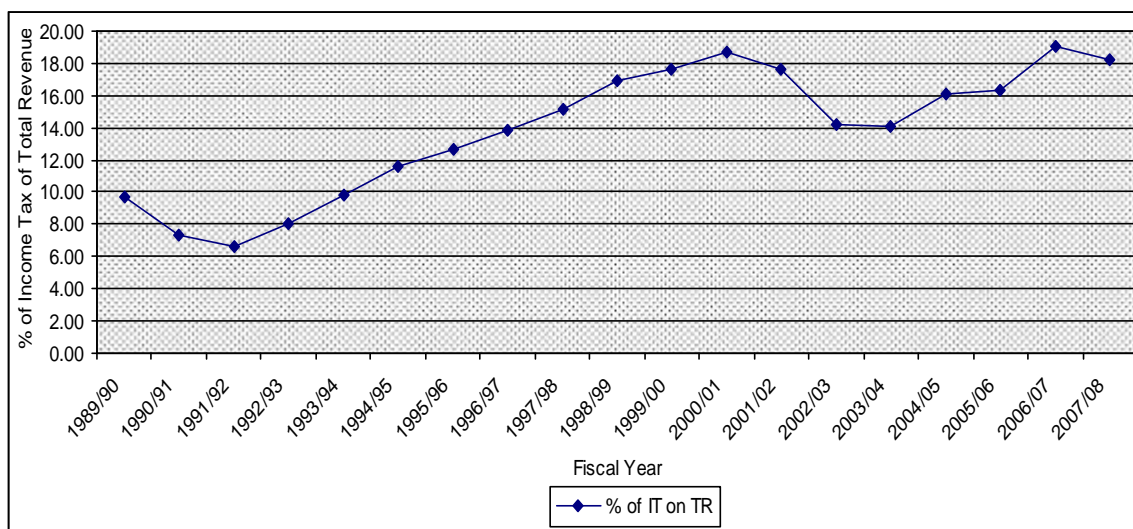


**4.1.9.2 Income Tax on Total Revenue**

Table 4.1.9 shows the percentage contribution of income tax to total revenue is fluctuating. It was 9.68% in FY 1989/90. It was 7.31% and 6.64% in FY 1990/91 and FY 1991/92 respectively. After then, it started to increase and reached 18.65% in FY 2000/01. Again from that year onwards it started to decrease i.e. 17.65% in FY 2001/02, 14.17% in FY 2002/03 and 14.13% in FY 2003/04. It was highest i.e. 19.05% in FY 2006/07. Figure 4.1.3 shows the relation of income tax to total tax revenue.

**Figure No.:4.1.3**

**Income Tax as a percentage of Total Revenue**

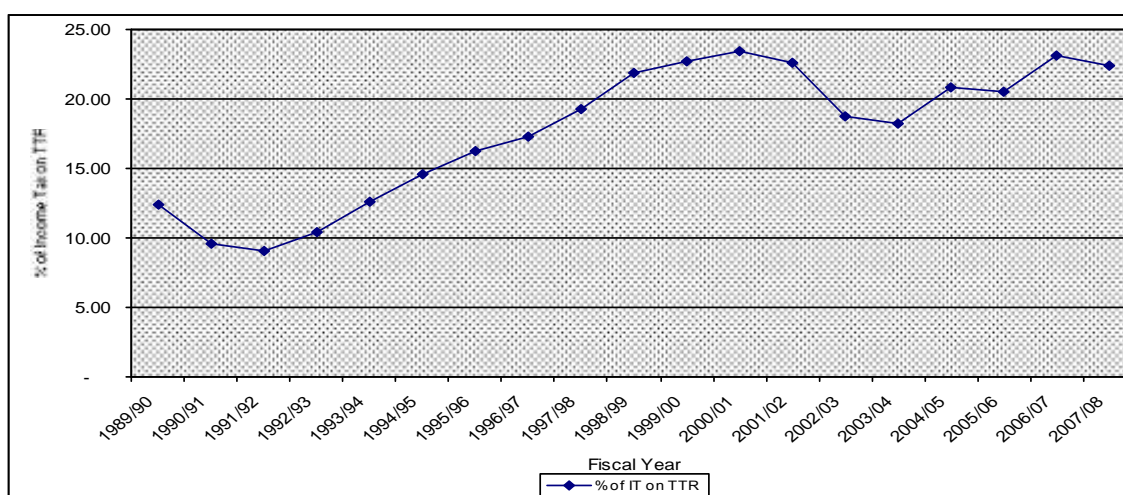


### 4.1.9.3 Income Tax on Total Tax Revenue

The percentage contribution of income tax in total tax revenue is presented in table 4.1.9. Contribution of income tax to total tax revenue is not equally changed in the study period. It was 12.35% in the FY 1989/90 and then decreased to 9.59% and 9.09% in the FY 1990/91 and FY 1991/92 respectively. After then it started to increase up to 23.46% in FY 2000/01. Contribution percentage was decreased to 18.71% and 18.28% in the FY 2002/03 and FY 2003/04 respectively. It was 22.40% in FY 2007/08. Figure 4.1.4 shows the relation of income tax on total tax revenue.

Figure No.: 4.1.4

#### Income Tax as Percentage of Total Tax Revenue



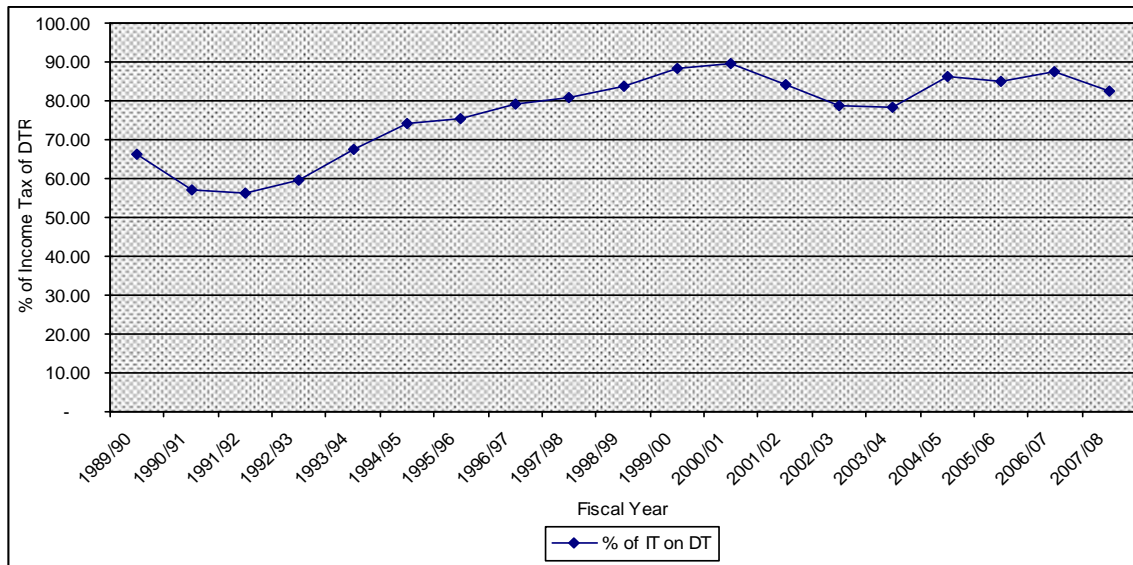
### 4.1.9.4 Income Tax on Direct Tax Revenue

Table 4.1.9 shows that there is immense contribution of income tax in direct tax revenue in our economy. Income tax revenue is the major sources of direct tax revenue. From FY 1989/90 to FY 1991/92, it was in decreasing trend whereas from FY 1992/93 to FY 2000/01 it was in increasing trend. But again it is in decreasing trend from FY 2001/02 to FY 2003/04. The minimum contribution is 56.25% in the FY 1991/92 whereas the maximum contribution is 89.74% in FY 2000/01. It was 82.63% in FY 2007/08. Figure 4.1.5 shows the relation of income tax with direct tax revenue.



**Figure No.: 4.1.5**

**Trend Income Tax as Percentage of Direct Tax Revenue**



## **4.2 Contribution of Income Tax of PEs in Government Revenue**

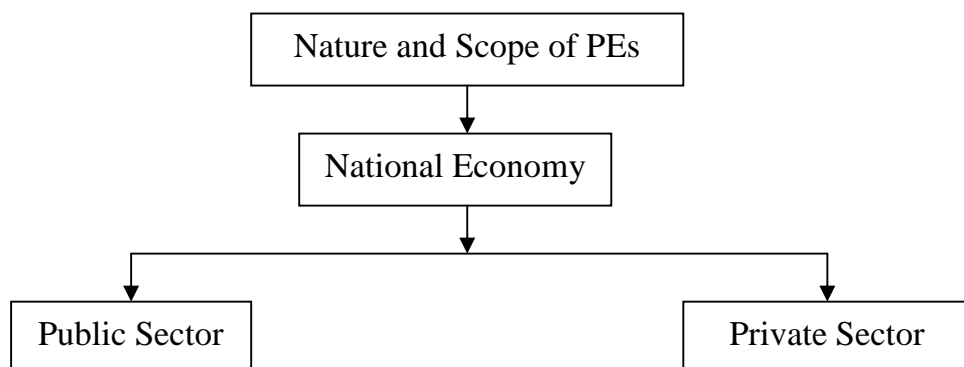
### **4.2.1 Introduction of PEs**

United Nations has defined PEs as, “those organization, namely government enterprises and public corporation which are entirely or mainly owned and /or controlled by the authorities consisting of establishments which by virtue of their kind of activities, technology and made of operation are classified as industries” (Profile of PEs in Nepal, 1978).

PEs are established in order to prepare infrastructure services to produce the require goods in the economy and to help in controlling the price situation, to create opportunities for employment, to increase government revenues and to contribute significantly in the national development as well as to assist in the country’s economic advancement (Eight plan: 2048).

PEs is autonomous bodies, which are owned and managed by the government and which provide goods or services for a price. The ownership with the government should be 51% or more to make an entity (Narayan, 1992).

A public authority holds thus in PEs more than 50% of outstanding equity either directly or indirectly. Government has power to involve in the management of the enterprises through the appointment of top management members of the Board of Directors and the Chief Executives.



It is sure that most developing countries need to make extensive use of PEs as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process. PEs have assumed significant role in almost every country of the world. Soon after the achievement of political independence in most of the countries of the third world, their national government realized that their national economics had to encounter grim circumstances of mass poverty, unemployment problems were further complicated by the existence of great disparity in income and wealth distribution, regional imbalance and last but not the least evils of over population.

#### **4.2.2 Role of PEs in Nepalese Economy**

PEs has become both necessary and useful as vehicles for development in developing nations. They are being loaded upon as an effective instrument of

program implementation of accomplishing the desired national growth goals. PEs constitutes a large and rapidly growing sector of the economy in the majority of countries in the world today, including Nepal.

The economy of Nepal is basically a mixed economy, where the public and private sector freely operate in the business environment except in the case of defense, which is not open to private sector. There is co-existence of both the public and private sectors in Nepal for the overall development of the country.

PEs plays a major role in achieving a twin objectives of social and economic development envisaged in the national policy. The role of PEs in stimulating and augmenting the people in economic growth in Nepal can hardly be under estimated.

PEs enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goal and objectives. Consequently, they are dominant in the production and supply of sugar, cement, cigarettes, leather, agricultural tools, petroleum products and all public utilities. Nepal tried to develop public institution after the advent of democracy in 1951 A.D. The first enterprise to be turned in public sector was “Nepal Bank Limited” established in 1938 A.D. with government and private shareholding.

Nepal started its planned economic development since 1956 A.D. with the launching of first five years plan. Since then, the number of public enterprises has increased substantially in the various field of national economy. The PEs is categorized in the various field of national economy. The PEs is categorized as follows:

**a. Statutory Corporation:**

These types of PEs are established under special act. RNAC, NIDC, NEA, NTC are some of the statutory corporation.

**b. Companies:**

Some PEs were established under “The Company Act 1964 A.D.” At present they are being governed by “Company Act 1996 A.D.” They are mostly manufacturing and trading concern. These companies are either fully owned or majority of equity is held by HMG/N. Herbs Production and Processing Company Ltd, Royal Drugs Ltd, Udaypur Cement Industries Ltd, Nepal Oil Corporation Ltd, are some of the companies.

It's sure that Nepal needs to make fairly extensive use of PEs as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process.

### 4.2.3 Sectoral Details of Privatized/ Liquidated PEs

Table No.: 4.2.1

#### List of Privatized/Liquidated PEs

S.No.	Name of the Company	Year of Privatization/ Liquidation	Method of Privatization	Sale of Block Share	Sales Proceeds (Rs.'000')
1.	Bhrikuti Paper Mills (BPM)	1992	Assets and Business Sales	70	2,29,800
2.	Harisidhi Brick & Tile Factory (HBTF)	1992	Assets and Business Sales	72	2,14,830
3.	Bansbari Leather and Shoe Factory	1992	Assets and Business Sales	75	64,662
4.	Nepal Film Development Company (NFDC)	1993	Share Sale	51	17,716
5.	Balaju Textiles Industries Ltd. (BTI)	1993	Share Sale	70	3,990
6.	Raw Hide Collection & Development Corp. Ltd.(RHCDC)	1993	Share Sale	-	13,127
7.	Nepal Bitumen & Barrel Udhog LTd. (NBBU)	1994	Share Sale	65	31,057
8.	Nepal Lube Oil Ltd. (NLO)	1994	Share Sale	40	-
9.	Nepal Jute Trade & Development Co.	1994	Liquidation	-	-
10.	Tabacco Development Co.	1996	Liquidation	-	14,473
11.	Nepal Foundry Industries (NFI)	1996	Share Sale	51	82,204
12.	Shree Raghupati Jute Mills (SRJM)	2002	Share Sale	65	-
13.	Biratnagar Jute Mills. (BJM)	1997	Lease	-	1,25,140
14.	Nepal Bank Ltd. (NBL)	2000	Share Sale	-	2,67,105
15.	Nepal Tea Development Corporation (NTDC)	2001	Share Sale and lease	65	-
16.	Agriculture Service Center	2002	Liquidation	-	-
17.	Cottage & Handicraft Emporium	2002	Liquidation	-	-
18.	Coal Ltd.	2002	Liquidation	-	-
19.	Hetauda Textile Industry	2002	Liquidation	-	-
20.	Nepal Transport Corporation	2002	Dissolved	-	-
21.	Butwal Power Co.	2003	Share sale	75	-
22.	Birgunj Sugar Factory Ltd.	2003	Dissolution	-	-
23.	Agriculture Tools Factory Ltd.	2003	Dissolution	-	-
24.	Bhaktapur Brick Factory	2004	Assets and Business Sale	-	-

Source: Target and Performance of PEs 2003 MOF, HMG Nepal

**Note:**

- 1) Management contract done by Company Mangement
- 2) HMG sold only 10% of the share.

#### 4.2.4 Performance of PEs

Performance of PEs in Nepal has remained poor. It is seen that continued inefficiency and ineffectiveness of PEs have a profound negative impact on the economy particularly on the issues of sustainability and their overwhelming demand on government researches. Large amounts of sources are invested in PEs by HMG/N. The performance of PEs in Nepal is presented here:

**Table No.: 4.2.2**  
**Performance of PEs from FY 1989/90 to 2007/08**

(Rs. In Millions)

<b>Fiscal Year</b>	<b>Gross Profit</b>	<b>Capital Employed</b>	<b>Gross Profit as % of Capital Employed</b>
1989/90	-244.60	18,472.20	-1.32
1990/91	-1,871.70	35,843.20	-5.22
1991/92	-1,145.50	50,530.30	-2.27
1992/93	146.40	43,482.90	0.34
1993/94	1,073.70	63,885.90	1.68
1994/95	1,965.60	59,244.80	3.32
1995/96	1,377.60	62,010.90	2.22
1996/97	475.90	85,757.90	0.55
1997/98	1,317.60	81,270.80	1.62
1998/99	2,903.30	83,685.60	3.47
1999/00	2,404.40	83,420.60	2.88
2000/01	-13,311.10	82,910.00	-16.05
2001/02	-5,475.30	150,088.20	-3.65
2002/03	-1,614.40	97,232.00	-1.66
2003/04	-2,524.10	112,944.30	-2.23
2004/05	2,130.30	176,673.80	1.21
2005/06	1,688.70	188,464.20	0.90
2006/07	8,902.40	162,994.60	5.46
2007/08	2,222.50	188,980.30	1.18
<b>Total</b>	<b>421.70</b>	<b>1,827,892.50</b>	
<b>Average</b>	<b>22.19</b>	<b>96,204.87</b>	

Source: Economic Survey of Various Years, MOF, HMG/N

Gross profit of PEs is in fluctuating trend during the study period. From FY 1989/90 to FY 1991/92, the gross profit is in negative trend i.e. loss. From that year onwards, it is in positive trend but in fluctuating manner i.e from FY 1992/93 to FY 1990/00 but again it is in negative trend from FY 2001/02 to FY 2003/04. In the last 4 years of our study period the gross profit of PEs is positive i.e in profit The highest gross profit is in the FY 2006/07 i.e. Rs. 8,902.40 millions. The average gross profit amount of PEs was in positive i.e. profit of Rs. 22.19 millions during the period of 19 years.

Capital employed of PEs is also in fluctuating trend. It was Rs. 18472.20 millions in FY 1989/90. Then it started to increase and reached to Rs. 150088.20 millions in FY 2001/02. It was Rs. 188,980.30 millions in the last year of our study period. The average capital employed of the PEs is Rs. 96,204.87 millions during the period of 19 years.

Gross profit percentage of capital employed is in fluctuating trend during the study period. It was negative for 1<sup>st</sup> three years and then positively increases for few years and then is again negative in the next four years. It was positive for last four years of our study period.

## 4.2.5 Contribution of Income Tax from PEs to GDP of Nepal

**Table No.:4.2.3**

### **Contribution of Income Tax from PEs to GDP in Nepal**

**From FY 1989/90 to 2007/08**

(Rs. In Millions)

<b>Fiscal Year</b>	<b>GDP</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of GDP</b>
1989/90	99,702.00	240.90	0.24
1990/91	116,127.00	162.20	0.14
1991/92	144,933.00	171.10	0.12
1992/93	165,350.00	255.30	0.15
1993/94	191,596.00	534.10	0.28
1994/95	209,974.00	860.20	0.41
1995/96	239,388.00	1,144.50	0.48
1996/97	269,570.00	1,231.10	0.46
1997/98	289,798.00	1,317.80	0.45
1998/99	330,018.00	1,526.50	0.46
1999/00	366,251.00	2,198.80	0.60
2000/01	393,566.00	2,928.00	0.74
2001/02	405,632.00	1,769.30	0.44
2002/03	435,531.00	1,251.00	0.29
2003/04	472,424.00	2,056.60	0.44
2004/05	504,101.00	1,331.56	0.26
2005/06	582,950.00	1,858.88	0.32
2006/07	670,588.00	1,018.32	0.15
2007/08	820,814.00	1,839.28	0.22
<b>Total</b>	<b>6,708,313.00</b>	<b>23,695.44</b>	<b>6.66</b>
<b>Average</b>	<b>353,069.11</b>	<b>1,247.13</b>	<b>0.35</b>

**Source: Economic Survey of Various Years, MOF, HMG/N**



The contribution of income tax from PEs in GDP is presented in Table 4.2.3. The share of income tax from PEs in the GDP of Nepal is very low. The share of income tax from PEs in GDP lies between 0.12% to 0.74% during the study period. Its share was 0.24% in FY 1989/90 and was 0.22% in FY 2007/08. The contribution of income tax from PEs in GDP is in fluctuating trend. Its average contribution to GDP was Rs. 1247.13 millions and 0.35% during the period of 19 years.

#### **4.2.6 Contribution of Income Tax from PEs to Government Revenue of Nepal**

The contribution of income tax from PEs in government revenue is presented in Table 4.2.4. The share of income tax from PEs in government revenue is very low. The maximum and minimum contribution percentage of income tax from PEs in government revenue is 5.99% and 1.17% in FY 2000/01 and FY 2006/07 respectively. These percentages are fluctuating during the study period. The percentage contributions are almost equal between FY 1995/96 to FY 1998/99. Contribution percentages for last three years are found in fluctuating trend. Its average contribution to government revenue was Rs. 1247.13 millions and 3% during the period of 19 years.

**Table No.: 4.2.4**  
**Contribution of Income Tax from PEs to Government Revenue of Nepal**  
**From FY 1989/90 to FY 2007/08**

(Rs. In Millions)

<b>Fiscal Year</b>	<b>Government Revenue</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Gov. Revenue</b>
1989/90	9,827.50	240.90	2.45
1990/91	10,730.90	162.20	1.51
1991/92	13,512.70	171.10	1.27
1992/93	15,148.40	255.30	1.69
1993/94	19,580.90	534.10	2.73
1994/95	24,605.10	860.20	3.50
1995/96	27,893.10	1,144.50	4.10
1996/97	30,373.50	1,231.10	4.05
1997/98	32,937.50	1,317.80	4.00
1998/99	37,247.30	1,526.50	4.10
1999/00	42,893.70	2,198.80	5.13
2000/01	48,893.90	2,928.00	5.99
2001/02	50,445.60	1,769.30	3.51
2002/03	56,229.90	1,251.00	2.22
2003/04	62,331.10	2,056.60	3.30
2004/05	70,122.70	1,331.56	1.90
2005/06	72,282.00	1,858.88	2.57
2006/07	87,199.70	1,018.32	1.17
2007/08	104,939.30	1,839.28	1.75
<b>Total</b>	<b>817,194.80</b>	<b>23,695.44</b>	<b>56.93</b>
<b>Average</b>	<b>43,010.25</b>	<b>1,247.13</b>	<b>3.00</b>

**Source: Economic Survey of Various Years, MOF, HMG/N**

## 4.2.7 Contribution of Income Tax from PEs to Tax Revenue of Nepal

The contribution of Income Tax from PEs in tax revenue of Nepal is presented in Table 4.2.5. The percentage share of income tax from PEs in tax revenue of Nepal is slightly higher than the percentage contribution to GDP and total tax revenue, which are shown in the table below:

**Table No.:4.2.5**  
**Contribution of Income Tax from PEs to Tax Revenue of Nepal**  
**From FY 1989/90 to FY 2007/08**

(Rs. In Millions)

<b>Fiscal Year</b>	<b>Tax Revenue</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Tax Revenue</b>
1989/90	7,283.90	240.90	3.13
1990/91	8,177.40	162.20	1.98
1991/92	9,875.60	171.10	1.73
1992/93	11,662.50	255.30	2.19
1993/94	15,371.50	534.10	3.47
1994/95	19,660.00	860.20	4.38
1995/96	21,668.00	1,144.50	5.28
1996/97	24,424.30	1,231.10	5.04
1997/98	25,939.80	1,317.80	5.08
1998/99	28,752.90	1,526.50	5.31
1999/00	33,152.10	2,198.80	6.63
2000/01	38,865.10	2,928.00	7.53
2001/02	39,330.60	1,769.30	4.50
2002/03	42,586.90	1,251.00	2.94
2003/04	48,173.30	2,056.60	4.27
2004/05	54,104.70	1,331.56	2.46
2005/06	57,430.40	1,858.88	3.24
2006/07	71,973.40	1,018.32	1.41
2007/08	85,155.46	1,839.28	2.16
<b>Total</b>	<b>643,587.86</b>	<b>23,695.44</b>	<b>72.92</b>
<b>Average</b>	<b>33,873.05</b>	<b>1,247.13</b>	<b>3.84</b>

Source: Economic Survey of Various Years, MOF, HMG/N

The percentage contribution lies between 1.41% to 7.53% in FY 2006/07 and 2000/01 during the study period. Its contribution was 3.13% in the FY 1989/90 and decrease up to 1992/93. After then it started to increase up to 7.53% in FY 2000/01. After that it is in fluctuating trend. The average percentage contribution of income tax from PEs in tax revenue found 3.84% and average income tax from PEs was Rs. 1247.13 millions during the study period of 19 years.

#### **4.2.8 Contribution of Income Tax from PEs to Direct Tax Revenue of Nepal**

The contribution of income tax from PEs in direct tax revenue of Nepal is higher than the percentage contribution in GDP, government revenue and tax revenue. It lies between 5.37% and 28.82% during the study period, which is presented in the table 4.2.6 below:

**Table No.: 4.2.6**

**Contribution of Income Tax from PEs to Direct Tax Revenue**  
**From FY 1989/90 to 2007/08**

(Rs. In Millions)

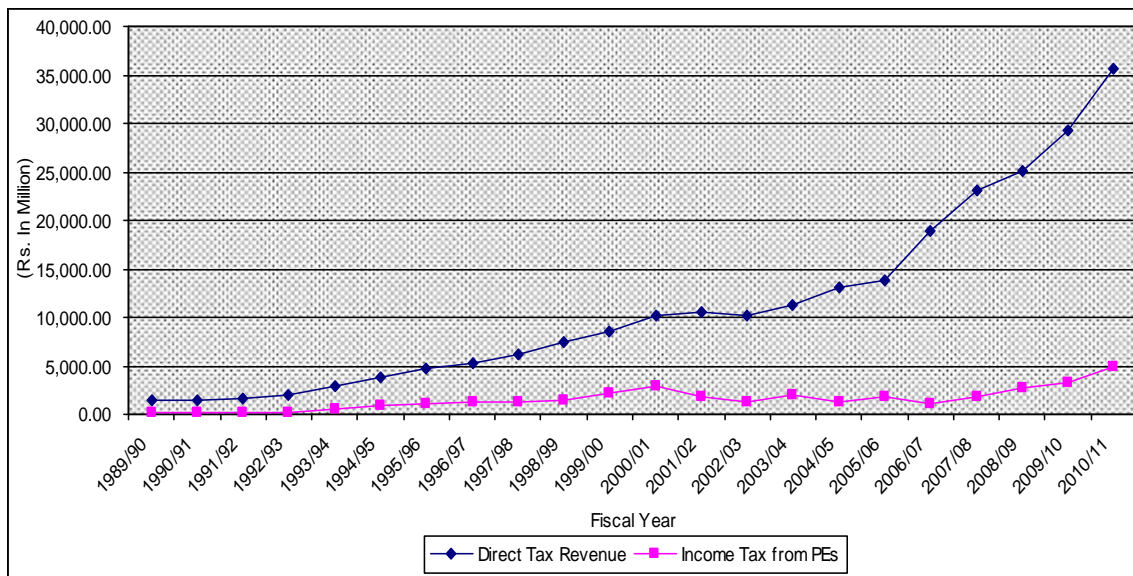
<b>Fiscal Year</b>	<b>Direct Tax Revenue</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Direct Tax Revenue</b>
1989/90	1,435.10	240.90	16.79
1990/91	1,369.70	162.20	11.84
1991/92	1,595.20	171.10	10.73
1992/93	2,036.20	255.30	12.54
1993/94	2,855.30	534.10	18.71
1994/95	3,849.30	860.20	22.35
1995/96	4,655.90	1,144.50	24.58
1996/97	5,340.00	1,231.10	23.05
1997/98	6,187.90	1,317.80	21.30
1998/99	7,516.10	1,526.50	20.31
1999/00	8,551.50	2,198.80	25.71
2000/01	10,159.40	2,928.00	28.82
2001/02	10,597.50	1,769.30	16.70
2002/03	10,105.70	1,251.00	12.38
2003/04	11,212.30	2,056.60	18.34
2004/05	13,071.09	1,331.56	10.19
2005/06	13,858.10	1,858.88	13.41
2006/07	18,980.30	1,018.32	5.37
2007/08	23,087.80	1,839.28	7.97
<b>Total</b>	<b>156,464.39</b>	<b>23,695.44</b>	<b>321.07</b>
<b>Average</b>	<b>8,234.97</b>	<b>1,247.13</b>	<b>16.90</b>
<b>Forecasted Value of Direct Tax and Income Tax from PEs</b>			
2008/09	25,060.09	2,639.28	10.53
2009/10	29,213.20	3,335.25	11.42
2010/11	35,720.34	4,971.09	13.92

**Source: Economic Survey of various years, Ministry of Finance, HMG/N**

The percentage contribution of income tax from PEs in direct revenue is in fluctuating trend. It was 16.79% in FY 1989/90 and started to decrease upto 10.73% till FY 1991/92. After then it is started to increase and reached 24.58% in FY 1995/96. Again it started to fluctuate and reached to the maximum 28.82% in 2000/01 and it is in irregular pattern for the last seven years.

Similarly table 4.2.6 shows the forecasted direct revenue and income tax from PEs. The forecasted direct tax revenue is Rs.25060.09 million, Rs. 29,213.20 million and Rs. 35,720.34 million in FY 2008/09, 2009/10 and 2010/11 respectively. Likewise income tax forecasted from PEs is Rs. 2,639.28 million, Rs. 3,335.25 million and Rs. 4971.09 million in the FY 2008/09, 2009/10 and 2010/11 respectively. The analysis depict the increasing trend in both direct tax revenue and income tax from PEs.

**Figure No.: 4.2.1**  
**Trend of Direct Tax Revenue and Income Tax from PEs**



## 4.2.9 Contribution of Income Tax from PEs to Total Income Tax

The contribution of income tax from PEs in income tax revenue is higher than the percentage share in GDP government revenue, tax revenue and direct tax revenue that is presented in table 4.2.7.

**Table No. 4.2.7**  
**Contribution of Income Tax from PEs to Total Income Tax from**  
**FY 1989/90 to 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Total Income Tax</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Total Tax</b>
1989/90	951.20	240.90	25.33
1990/91	784.00	162.20	20.69
1991/92	897.30	171.10	19.07
1992/93	1,214.90	255.30	21.01
1993/94	1,929.60	534.10	27.68
1994/95	2,857.60	860.20	30.10
1995/96	3,518.60	1,144.50	32.53
1996/97	4,218.40	1,231.10	29.18
1997/98	5,008.80	1,317.80	26.31
1998/99	6,293.50	1,526.50	24.26
1999/00	7,539.10	2,198.80	29.17
2000/01	9,116.90	2,928.00	32.12
2001/02	8,906.00	1,769.30	19.87
2002/03	7,966.20	1,251.00	15.70
2003/04	8,805.30	2,056.60	23.36
2004/05	11,272.60	1,331.56	11.81
2005/06	11,787.00	1,858.88	15.77
2006/07	16,608.10	1,018.32	6.13
2007/08	19,077.81	1,839.28	9.64
<b>Total</b>	<b>128,752.91</b>	<b>23,695.44</b>	<b>419.72</b>
<b>Average</b>	<b>6,776.47</b>	<b>1,247.13</b>	<b>22.09</b>

**Source: Economic Survey of Various Years, MOF, HMG/N.**

The table above shows that the income tax contribution percentage of PEs to total tax revenue is in fluctuating trend. It lies between 6.13% to 32.53% during the study period. It was 25.33% in FY 1989/90 and reached 15.70% in FY 2002/03. It was 19.07% in FY 1991/92 and then started to increase and reached 32.53% in FY 1995/96. Then, it continuously decreased for 3 years and again increased and reached 32.12% in FY 2000/01. It was then in fluctuating trend for the remaining years. In the last year i.e FY 2007/08 it was 9.64% The average contribution of income tax from PEs to total income tax is 22.09% in our study period.

#### **4.2.10 Contribution of Income Tax from PEs to Corporate Income Tax**

The contribution percentage share of income tax from PEs to corporate income tax is higher than the contribution percentage of GDP, government revenue, total tax revenue, direct tax revenue and total income tax. The percentage contribution of income tax from PEs in corporate income tax is in fluctuating trend that is presented in the table No. 4.2.8.



**Table No.: 4.2.8**  
**Contribution of Income Tax from PEs to Corporate Income Tax**  
**From FY 1989/90 to 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Corporate Income Tax</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Corporate Income Tax</b>
1989/90	243.00	240.90	99.14
1990/91	165.00	162.20	98.30
1991/92	183.00	171.10	93.50
1992/93	267.00	255.30	95.62
1993/94	556.00	534.10	96.06
1994/95	1,300.00	860.20	66.17
1995/96	1,708.00	1,144.50	67.01
1996/97	2,690.00	1,231.10	45.77
1997/98	2,930.00	1,317.80	44.98
1998/99	3,460.00	1,526.50	44.12
1999/00	4,440.00	2,198.80	49.52
2000/01	5,990.00	2,928.00	48.88
2001/02	4,371.00	1,769.30	40.48
2002/03	3,656.00	1,251.00	34.22
2003/04	4,839.00	2,056.60	42.50
2004/05	5,327.32	1,331.56	24.99
2005/06	5,395.70	1,858.88	34.45
2006/07	11,515.84	1,018.32	8.84
2007/08	9,767.75	1,839.28	18.83
<b>Total</b>	68,804.61	23,695.44	1,053.37
<b>Average</b>	3,621.30	1,247.13	55.44
<b>Forecasted Value of Corporate Income Tax and Income Tax from PEs</b>			
2008/09	11,202.10	2,639.28	23.56
2009/10	12,975.98	3,335.25	25.70
2010/11	14,957.25	4,971.09	33.24

Source: Economic Survey Various Years, MOF, HMG/N

Note:

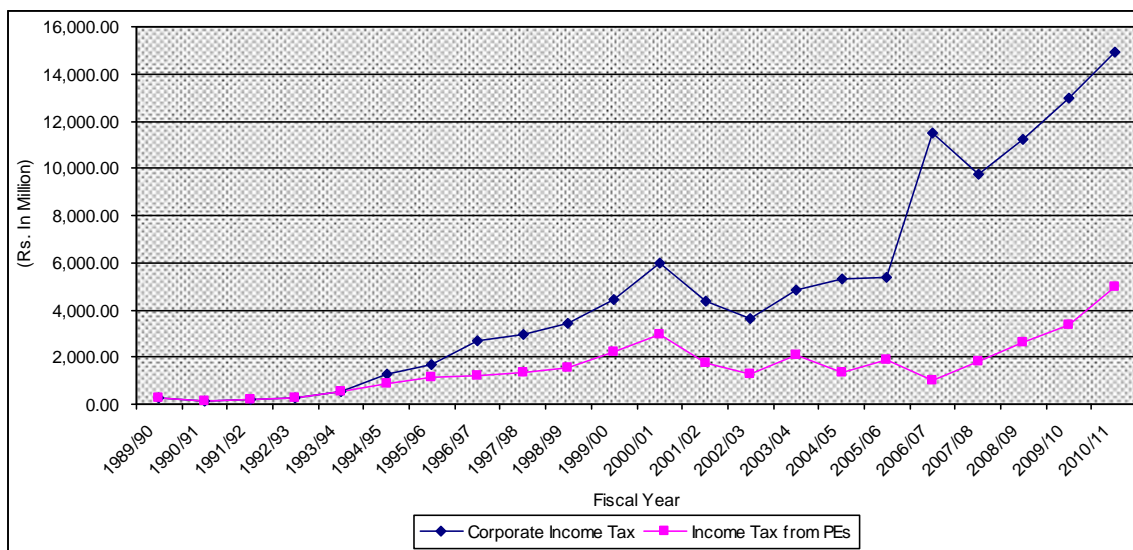
- Corporate Tax includes (Income Tax from PEs, Semi- PEs and Private Corporate Body).

Table shows that contribution percentage was moreover in decreasing trend from the very beginning to end of the study period. It was maximum i.e. 99.14% in FY 1989/90 and was minimum 8.84% in FY 2006/07. Average percentage contribution of income tax from PEs in corporate income tax was 55.44 during the study period. Its share was 98.30% in the FY 1990/91. After then, increase and reached 96.06% in FY 1993/94. It was decreased then and reached 34.22% in FY 2002/03. Its contribution percentage in the year FY 2007/08 was 18.83%.

Likewise, table 4.2.8 shows the forecasted corporate income tax and income tax from PEs. The forecasted corporate income tax revenue is Rs. 11,202.10 million, Rs. 12,975.98 million and Rs. 14,957.25 million in FY 2008/09, 2009/10 and 2010/11 respectively. Similarly, income tax from PEs will be Rs. 2,639.28 million, Rs. 3,335.25 million and Rs. 4971.09 million in the FY 2008/09, 2009/10 and 2010/11 respectively. The analysis reflects the increasing trend of both corporate income tax revenue and income tax from PEs. Figure 4.2.2 shows the trend of corporate income tax and income tax from PEs.

**Figure No.: 4.2.2**

**Trend of Corporate Income Tax and Income Tax from PEs**



#### 4.2.11 Contribution of Income Tax from PEs in Revenue from PEs to HMG

The percentage contribution of income tax from PEs in total revenue from PEs to HMG is in fluctuating trend. The percentage of income tax from PEs in total revenue from PEs to HMG is presented in Table No. 4.2.9.

**Table No. 4.2.9**  
**Contribution of Income Tax from PEs in Revenue from PEs to HMG/N**  
**From FY 1989/90 to 2007/08**

(Rs. In Million)

Fiscal Year	Revenue from PEs to HMG/N	Income Tax from PEs	Income Tax from PEs as % of Revenue from PEs to HMG
1989/90	1,544.80	240.90	15.59
1990/91	1,972.10	162.20	8.22
1991/92	1,865.40	171.10	9.17
1992/93	3,332.80	255.30	7.66
1993/94	4,396.50	534.10	12.15
1994/95	2,766.30	860.20	31.10
1995/96	4,236.40	1,144.50	27.02
1996/97	3,722.70	1,231.10	33.07
1997/98	3,665.30	1,317.80	35.95
1998/99	4,590.00	1,526.50	33.26
1999/00	6,381.20	2,198.80	34.46
2000/01	6,727.30	2,928.00	43.52
2001/02	7,231.60	1,769.30	24.47
2002/03	4,675.60	1,251.00	26.76
2003/04	6,322.40	2,056.60	32.53
2004/05	7,380.10	1,331.56	18.04
2005/06	5,324.93	1,858.88	34.91
2006/07	7,003.60	1,018.32	14.54
2007/08	5,976.80	1,839.28	30.77
<b>Total</b>	<b>89,115.83</b>	<b>23,695.44</b>	<b>473.19</b>
<b>Average</b>	<b>4,690.31</b>	<b>1,247.13</b>	<b>24.90</b>

Source: Economic Survey of Various Years, MOF, HMG/N

**Note:**

- Revenue from PEs to HMG includes indirect tax, income tax, dividend and interest. But it is not included payment of principle.

Table shows that minimum percentage contribution and maximum was 7.66 and 43.52 for FY 1992/93 and 2000/01 respectively. Contribution percentage for 1<sup>st</sup> year of study period was 15.59% and it was decreased and reached to 7.66% in FY 1992/93. Then, it was continuously increased and reached 35.95% in FY 1997/98. After then, there was small decrease and reached 33.26% in FY 1998/99. The highest percentage contribution was found 43.52% in FY 2000/01. Second last year of study period, the contribution percentage was only 14.54% and there was high increase and reached 30.77% in FY 2007/08. The average contribution of income tax from PEs in total revenue from PEs to HMG is 24.93% during the study period of 19 years.

### **4.3 Contribution of Income Tax of NTC in Government Revenue**

#### **4.3.1 Introduction of NTC**

Communication is one of the basic infrastructures of national development, which helps to make people sensitive, active, enthusiastic and skillful. At present, these are personal meeting, postal services, telecommunication and news papers-mail and internets.

Telecommunication service is a vital medium of communication in the world. In Nepal the slogan of “communication for development” has become a catchword for all those involved in the development of various means of communication services. Development of telecommunication services has received a place of importance in the development plans of our country. The

development function was transferred to a board, which was known as NTC Board in 1969, and its resources base considerably strengthened in terms of its ability to bundle modern telecommunication facilities in Nepal. Later in 1975 the telecommunication was converted into the public corporation, which was aimed to be 51% share to HMG, 25% share to staff of NTC and 24% ordinary share to public respectively according to Communication Corporation Act 1971. But it was fated to implement. From the date of 15 June 1975, Government has run it in cent percent ownerships under the Communication Corporation Act 1971 (Acharya, 2056).

Because of the increasing demand of Telephone lines, NTC has prepared a program to distribute a large number of Telephones during the tenth five-year plan. To fulfill this objective, NTC will establish new telephone exchanges, the number of telephone exchange have increased and the total distribution line hoped to increase the capacity to 12.5 lakhs. Mobile service line also hoped to increase the capacity to 4.5 lakhs. Today cellular mobile services have been started from the commercial as well as personal point of view (Telecom, Newspaper Bi-Monthly).

Most of the PEs in Nepal are suffering from the loss situation. NTC is only such of PEs which is operating under the net profit position in every FY from establishment. NTC is the top most income tax payer enterprise in Nepal. In FY 2007/08 NTC paid Rs. 2780.74 million in the form of income tax. Thus it is a symbol of excellence that it is providing modern telecommunication service to the country and other it is operating in profit contributing in the government revenue by various ways.

#### **4.3.2 Role of NTC**

Telecommunication is one of the most quickest, cheapest and scientific means of communication in the modern world. The government cannot run the economic

and development activities without the facility of telecommunication. Other means of communication such as postal service, transportation etc. slower, expensive and less convenient but telecommunication is reliable means of communication. It brings co-ordination among different government entities, which ultimately promotes administrative efficiency. The increase in administrative efficiency can be expected to enhance the productivity of government decision and a better utilization of society and resources as well as mobilization of labor force for the achievement of national goals. Telecommunication links to overseas countries, which helps in the development of tourist industries, main sources of foreign exchange earning. Not only it contributes in national economy, but also helps to bring national unity among the national and international people creating a brotherhood relationship among the people. Telecommunication has also contributed a lot for development of social condition of the country because it is a means of the social condition of the accumulation, exchange and transfer of knowledge between peoples.

In the developing country like Nepal, without contributions of telecommunication the development of the country cannot be imagined. In Nepal, there is no sector where telecommunication has not played a role in development. The effects of telecommunication on the rural areas and their contribution to rural development are potentially extremely important, yet rather different to urban. NTC has played an important role in agriculture sector also by providing information on prices and market situations. Therefore, telecommunication has played a wonderful role in developing and developed countries to develop and to attain national objectives.

#### **4.3.3 Contribution of Income Tax from NTC to GDP of Nepal**

The contribution of income tax from NTC to GDP is in fluctuating trend. It is known that the percentage contribution of NTC in GDP is less than in comparison

to percentage contribution of PEs to GDP. Percentage contribution of NTC to GDP is very small but it is not small in comparison to other PEs contribution to GDP. This is presented in the table 4.3.1:

**Table No.: 4.3.1**  
**Contribution of Income Tax from NTC to GDP of Nepal**  
**From FY 1989/90 to FY 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>GDP</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of GDP</b>
1989/90	99,702.00	75.95	0.08
1990/91	116,127.00	80.64	0.07
1991/92	144,933.00	70.48	0.05
1992/93	165,350.00	206.38	0.12
1993/94	191,596.00	449.17	0.23
1994/95	209,974.00	550.92	0.26
1995/96	239,388.00	701.92	0.29
1996/97	269,570.00	634.00	0.24
1997/98	289,798.00	650.00	0.22
1998/99	330,018.00	670.00	0.20
1999/00	366,251.00	702.08	0.19
2000/01	393,566.00	761.02	0.19
2001/02	405,632.00	871.50	0.21
2002/03	435,531.00	1,011.55	0.23
2003/04	472,424.00	1,175.33	0.25
2004/05	504,101.00	1,379.07	0.27
2005/06	582,950.00	1,907.08	0.33
2006/07	670,588.00	2,330.63	0.35
2007/08	820,814.00	2,780.74	0.34
<b>Total</b>	<b>6,708,313.00</b>	<b>17,008.46</b>	<b>4.14</b>
<b>Average</b>	<b>353,069.11</b>	<b>895.18</b>	<b>0.22</b>

**Sources: Economic Survey of various years, MOF, HMG/Nepal**  
**(Annual report of NTC, Head Office of NTC)**

Table shows that the share of income tax from NTC in GDP lies from 0.05 percent to 0.35 percent during the study period. Its contribution to GDP is in fluctuating trend. Its contribution to GDP was .08 percent in FY 1989/90 and decrease for next two years and again increase and reached 0.29 percent in FY 1995/96. Then again it decrease for next few years and then increase. Its average contribution to GDP was 0.22 percent during the period of 19 years.

### **Relationship between GDP and Income Tax Revenue from NTC**

GDP Linear Regression Model is estimated to examine the relationship between GDP and Income Tax from NTC, the following equation verifies the effects of change in GDP are the income tax from NTC:

$$\text{GDP} = 82121.78 + 336.552 * \text{ITNTC}$$

$$\text{St. Error} (20803.377) * (31.440)$$

$$\overline{R^2} = 0.898 \quad R^2 = 0.890 \quad b F = 82.016^*$$

Note: \*significant at 1 percent level of better.

The equation shows that there is a positive relationship between change in income tax from NTC and change value of GDP. The sign of regression coefficient is positive as expected and significant at 1 percent level. Intercept term is also significant even at 1 percent level. Meaning that, income tax from NTC significantly affects the GDP. The R squared and adjusted R squared values lying around 0.89 reveal that 89% variable in income tax from NTC can be explained by GDP. F statistics also signifies overall fitness of the model which are about 82.016.



#### **4.3.4 Contribution of Income Tax from NTC to Government Revenue of Nepal**

The percentage contribution of income tax from PEs in government revenue is also in fluctuating trend. The contribution of income tax from NTC to government revenue is increasing every year. The share of income tax from NTC in government revenue lies between 0.52 and 2.67 percent during the study period that is shown in the following table:

**Table No.: 4.3.2**  
**Contribution of Income Tax from NTC to Government Revenue of Nepal**  
**From FY 1989/90 to 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Government Revenue</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Government Revenue</b>
1989/90	9,827.50	75.95	0.77
1990/91	10,730.90	80.64	0.75
1991/92	13,512.70	70.48	0.52
1992/93	15,148.40	206.38	1.36
1993/94	19,580.90	449.17	2.29
1994/95	24,605.10	550.92	2.24
1995/96	27,893.10	701.92	2.52
1996/97	30,373.50	634.00	2.09
1997/98	32,937.50	650.00	1.97
1998/99	37,247.30	670.00	1.80
1999/00	42,893.70	702.08	1.64
2000/01	48,893.90	761.02	1.56
2001/02	50,445.60	871.50	1.73
2002/03	56,229.90	1,011.55	1.80
2003/04	62,331.10	1,175.33	1.89
2004/05	70,122.70	1,379.07	1.97
2005/06	72,282.00	1,907.08	2.64
2006/07	87,199.70	2,330.63	2.67
2007/08	104,939.30	2,780.74	2.65
<b>Total</b>	<b>817,194.80</b>	<b>17,008.46</b>	<b>34.85</b>
<b>Average</b>	<b>43,010.25</b>	<b>895.18</b>	<b>1.83</b>
<b>Forecasted Value of Government Revenue and Income Tax from NTC</b>			
2008/09	115,268.98	3,798.26	3.30
2009/10	125,988.12	4,598.33	3.65
2010/11	139,699.78	5,598.54	4.01

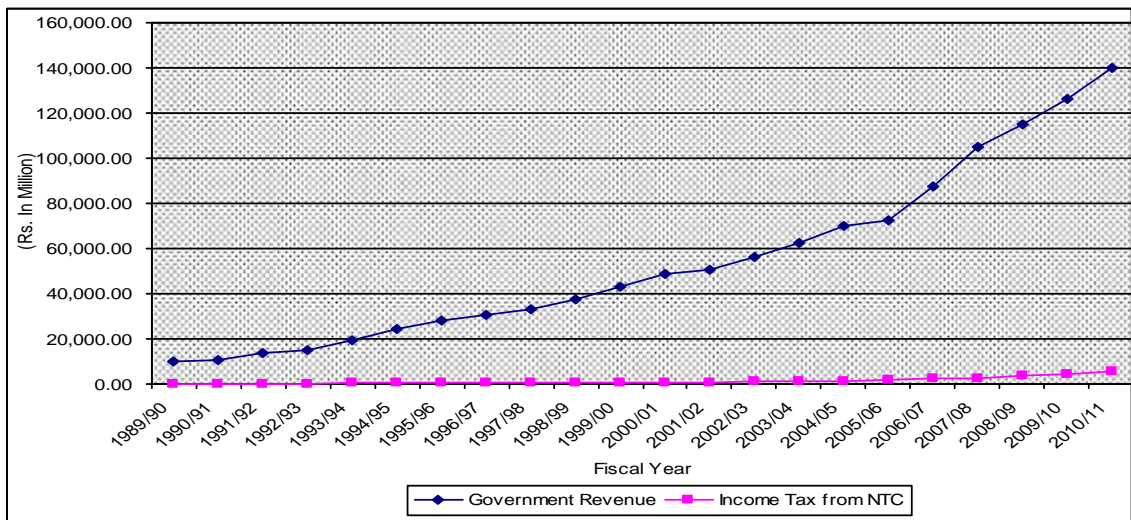
**Sources: Economic Survey of various years, MOF, HMG/Nepal**  
**(Annual report of NTC, Head Office of NTC)**

As we can see that the percentage contribution of NTC was 0.77 percent in FY 1989/90 and then in the next two years it decreased and then reached 1.36 percent in FY 1992/93. The maximum contribution percent is 2.67% in FY 2006/07 and the minimum was 0.52 percent in FY 1991/92. In the last year of study period, the contribution percent is 2.65%.

The contribution of income tax from NTC in total revenue is only 1.83 percent and other tax and non-tax revenue is 98.17 percent. This is calculated from average percentage. The amount of income tax revenue of NTC is increasing every year except in FY 1991/92 and 1996/97. Government revenue is increasing drastically every year whereas income tax revenue from NTC is increasing soft and slow manner.

Likewise, table 4.3.2 shows the forecasted government revenue and income tax from NTC. The forecasted government revenue is Rs. 115,268.98 million, Rs.125,988.12 and Rs. 139,699.78 million in FY 2008/09, 2009/10 and 2010/11 respectively. The forecasted income tax from NTC is Rs. 3,798.26, Rs. 4,598.33 and Rs. 5,598.54 in FY 2008/09, 2009/10 and 2010/11 respectively .The analysis reflects the increasing trend of both corporate income tax revenue and income tax from NTC respectively. Figure 4.3.1 shows the trend of government revenue and income tax from NTC:

**Figure No.: 4.3.1**  
**Trend of Government Revenue and Income Tax from NTC**  
**From FY 1989/90 to FY 2007/08**



### Relationship between Government Revenue and Income Tax from NTC

To examine the relationship between Government Revenue and Income tax from NTC, Government revenue linear regression model are estimated. The following equations verify the effect of change in Government revenue on change in income tax from NTC:

$$(I) GR = 4887.549^{**} + 47.180 \cdot ITNTC$$

St. Error (3036.439)      (4.989)

$$R^2 = 0.882 \quad \bar{R}^2 = 0.872 \quad F = 89.432^*$$

Note: \* significant at 1 percent level of better.

\*\*significant at 15 percent level of better.

The equation shows that there is a positive relationship between change in income tax from NTC and change value of government revenue. The sign of regression co-efficient is positive as expected and significant at 15 percent level. Intercept term is also significant even at 1 percent level. Meaning that, income tax from NTC significantly affects the total revenue. The R squared and started and

adjusted R squared values lying around 0.87 reveal that 87% variable in income tax from NTC can be explained by Government Revenue. F statistics also signifies overall fitness of the model which is about 89.43.

#### **4.3.5 Contribution of Income Tax from NTC to Total Tax Revenue of Nepal**

The percentage share of income tax from NTC in tax revenue of Nepal is slightly higher than the percentage contribution to GDP and government revenue. It lies between 0.71 percent and 3.24 percent during the study period. The percentage contribution of income tax from NTC is in fluctuating trend, which is known by the table 4.3.3.

**Table No.:4.3.3**  
**Contribution of Income Tax from NTC to Tax Revenue of Nepal**  
**From Fiscal Year 1989/90 to 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Total Tax Revenue</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Tax Revenue</b>
1989/90	7,704.76	75.95	0.99
1990/91	8,177.40	80.64	0.99
1991/92	9,875.60	70.48	0.71
1992/93	11,662.50	206.38	1.77
1993/94	15,371.50	449.17	2.92
1994/95	19,660.00	550.92	2.80
1995/96	21,668.00	701.92	3.24
1996/97	24,424.30	634.00	2.60
1997/98	25,939.80	650.00	2.51
1998/99	28,752.90	670.00	2.33
1999/00	33,152.10	702.08	2.12
2000/01	38,865.10	761.02	1.96
2001/02	39,330.60	871.50	2.22
2002/03	42,586.90	1,011.55	2.38
2003/04	48,173.30	1,175.33	2.44
2004/05	54,104.70	1,379.07	2.55
2005/06	57,430.40	1,907.08	3.32
2006/07	71,973.40	2,330.63	3.24
2007/08	85,155.46	2,780.74	3.27
<b>Total</b>	<b>644,008.72</b>	<b>17,008.46</b>	<b>44.33</b>
<b>Average</b>	<b>33,895.20</b>	<b>895.18</b>	<b>2.33</b>

**Sources: Economic Survey of various years, MOF, HMG/Nepal**  
**(Annual report of NTC, Head Office of NTC)**

The above table determines the share of income tax from NTC in total tax revenue of Nepal. The share of income tax from NTC was recorded 0.99 percent in FY 1989/90. The percentage contribution of income tax from NTC does not show any definite trend of increase or decrease but is fluctuating within the range of 0.71 to 3.32 percent. The percentage contribution by NTC is same in first two years and in the third year it has decreased. Then it has increased till the FY 1995/96 and again it started to decrease for few years. The average contribution of income tax from NTC revenue is 2.33 percent.

### **Relationship between Total Tax Revenue and Tax Revenue from NTC**

To examine the relationship between TTR and Income tax from NTC, TTR linear regression model are estimated. The following equations verify the effect of change in TTR on change in income tax form NTC:

$$TTR=3784.41^{**}+36.82* ITNTC$$

$$St. Error (2285.626) (3.75)$$

$$R^2=0.869 \quad R^2=0.860 \quad F=96.12^*$$

Note: \*significant at 1 percent level or better.

\*\* significant at 15 percent level or better.

The equation shows that there is a positive relationship between change in income tax from NTC and change in value of TTR. The sign of regression coefficient is positive as expected and significant at 15 percent level. Intercept term is also significant even at one percent level. Meaning that, income tax form NTC significantly affects the TTR. The R squared and adjusted R squatted values lying around 0.89 reveal that 89% variable in income tax from NTC can be explained by TTR. F statistics are also significant and overall fitness of the model, which are about 96.12.

### **4.3.6 Contribution of Income Tax from NTC to Direct Tax Revenue**

In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue because of low level of income and standard of living in the country. There is

substantial contribution of income tax in direct tax of Nepal. The contribution of income tax from NTC in direct tax revenue of Nepal is presented in the table no. 4.3.4.

**Table No.: 4.3.4**  
**Contribution of Income Tax from NTC to Direct Tax Revenue of Nepal**  
**From FY 1989/90 to 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Direct Tax Revenue</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Direct Tax Revenue</b>
1989/90	1,435.10	75.95	5.29
1990/91	1,369.70	80.64	5.89
1991/92	1,595.20	70.48	4.42
1992/93	2,036.20	206.38	10.14
1993/94	2,855.30	449.17	15.73
1994/95	3,849.30	550.92	14.31
1995/96	4,655.90	701.92	15.08
1996/97	5,340.00	634.00	11.87
1997/98	6,187.90	650.00	10.50
1998/99	7,516.10	670.00	8.91
1999/00	8,551.50	702.08	8.21
2000/01	10,159.40	761.02	7.49
2001/02	10,597.50	871.50	8.22
2002/03	10,105.70	1,011.55	10.01
2003/04	11,212.30	1,175.33	10.48
2004/05	13,071.09	1,379.07	10.55
2005/06	13,858.10	1,907.08	13.76
2006/07	18,980.30	2,330.63	12.28
2007/08	23,087.80	2,780.74	12.04
<b>Total</b>	<b>156,464.39</b>	<b>17,008.46</b>	<b>195.20</b>
<b>Average</b>	<b>8,234.97</b>	<b>895.18</b>	<b>10.27</b>

**Sources: Economic Survey of various years, MOF, HMG/Nepal**  
**(Annual report of NTC, Head Office of NTC)**



The table shows the position of income tax from NTC in direct tax revenue of Nepal. The mean contribution of income tax from NTC is 10.27 percent in our study period.. The percentage contribution by income tax from NTC in total direct tax revenue is fluctuating within the range between 4.42 percent and 15.73 percent. The above figure shows that the income tax from NTC has a significant importance in total direct tax revenue. The percentage contribution by NTC was 5.29 percent in FY 1989/90, which decreased to 4.42 percent in FY 1991/92. Then after it has started to increase and went up to 15.73 percent in FY 1993/94. Then it started to decrease except in FY 1995/96 and reached to 7.49 percent. It was 12.04% in FY 2007/08.

### **Relationship between Direct Income Tax and Income Tax Revenue from NTC**

To examine the relationship between direct tax revenue and income tax from NTC, DT linear regression model are estimated. The following equations verify the effect of change in DT on change in income tax from NTC.

$$(III) DT=158.874+10.145*ITNTC$$

$$\text{St. Error (790.610)} \quad (1.299)$$

$$R^2 = 0.836 \quad R^2= 0.822 \quad F=60.998^*$$

Note: \* significant at 1 percent level or better.

The equation shows that there is a positive relationship between change in income tax from NTC and change value of DT. The sign of intercept term is also significant at 1 percent level. It means, income tax from NTC is significantly affects the DT. The R squared and adjusted R squared values lying around 0.82 reveal that 82% variable in income tax from NTC can be explained by DT. F statistics is also significant and overall fitness of the model, which are about 60.9.

### **4.3.7 Contribution of Income Tax from NTC to Total Tax Revenue**

The role of income tax in our country is increasing almost every year. The continuous improvement and the trend of revenue from income tax are increasing. In our total

income tax structure, individual occupies the highest position among the different type of income tax. Thus, the share of corporate income tax is required to increase. Income tax from NTC in total tax revenue is presented in the table no. 4.3.5.

**Table No.: 4.3.5**  
**Contribution of Income Tax from NTC to Total Income Tax**  
**From FY 1989/90 to 2007/08** (Rs. In Million)

<b>Fiscal Year</b>	<b>Total Income Tax</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Total Income Tax</b>
1989/90	951.20	75.95	7.98
1990/91	784.00	80.64	10.29
1991/92	897.30	70.48	7.85
1992/93	1,214.90	206.38	16.99
1993/94	1,929.60	449.17	23.28
1994/95	2,857.60	550.92	19.28
1995/96	3,518.60	701.92	19.95
1996/97	4,218.40	634.00	15.03
1997/98	5,008.80	650.00	12.98
1998/99	6,293.50	670.00	10.65
1999/00	7,539.10	702.08	9.31
2000/01	9,116.90	761.02	8.35
2001/02	8,906.00	871.50	9.79
2002/03	7,966.20	1,011.55	12.70
2003/04	8,805.30	1,175.33	13.35
2004/05	11,272.60	1,379.07	12.23
2005/06	11,787.00	1,907.08	16.18
2006/07	16,608.10	2,330.63	14.03
2007/08	19,077.81	2,780.74	14.58
<b>Total</b>	<b>128,752.91</b>	<b>17,008.46</b>	<b>240.35</b>
<b>Average</b>	<b>6,776.47</b>	<b>895.18</b>	<b>12.65</b>

Sources: Economic Survey of various years, MOF, HMG/Nepal  
(Annual report of NTC, Head Office of NTC)

The table shows that the contributions of income tax from NTC on total income tax revenue of Nepal. The percentage of income tax from NTC on total income tax revenue was viewed from 7.98 to 23.38 percent. In FY 1989/90 the percentage contribution of income tax from NTC on total income tax revenue was recorded 7.98 percent. Then the trend went up and down. It increased up to 23.38 percent. Then the percent contribution on NTC decreased to 19.28 percent in FY 1994/95. Again there was an increase and then decrease. It was 14.58 percent in FY 2007/08. If we calculate the average of last 19 years the percentage contribution of income tax from NTC to total income tax is 12.65 percent.

### **Relationship between Total Income Tax and Income Tax from NTC**

To examine the relationship between TIT and Income tax from NTC, TIT linear regression model are estimated. The following equations verify the effect of change in TIT on change in income tax from NTC:

$$(IV) TIT = -237.799 + 7.932 * ITNTC$$

St Error (741.431) (1.218)

$$R^2 = 0.779 \quad \bar{R}^2 = 0.761 \quad F = 42.398^*$$

Note: \*significant at 1 percent level or better.

The equation define that there is a positive relationship between change in income tax form NTC and change value of TIT. The sign of intercept term is also significant at one percent level. It means income tax form NTC is significantly affects the TIT. The R squared and adjusted R squared values lying around 0.77 reveal that 77% variable in income tax from NTC can be explained by TIT. F statistics is also significant and overall fitness of the model, which is about 42.4.

### **4.3.8 Contribution of Income Tax from NTC to Corporate Income Tax**

Corporate Income Tax is a major part of income tax. It is important for socio economic development of the nation. The contribution percentage of income tax from NTC to corporate income tax is in fluctuating trend but its percentage is very significant. Its contribution is between 15.68 to 80.80 percent. The average contribution percentage share of corporate income tax is 37.96 percent. Contribution of income tax from NTC to corporate income tax is shown in the table 4.3.6.

**Table No.:4.3.6**  
**Contribution of Income Tax from NTC to Corporate Income Tax of Nepal**  
**From Fiscal Year 1989/90 to 2003/04**

(Rs. In Million)

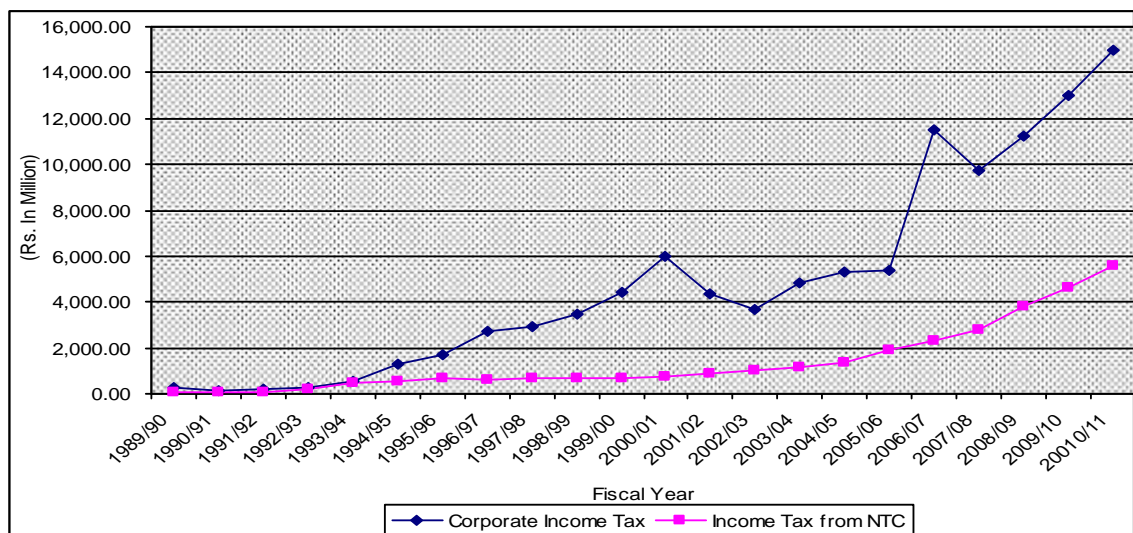
<b>Fiscal Year</b>	<b>Corporate Income Tax</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Corporate Income Tax</b>
1989/90	243.00	75.95	31.26
1990/91	165.00	80.64	48.87
1991/92	183.00	70.48	38.51
1992/93	267.00	206.38	77.30
1993/94	556.00	449.17	80.79
1994/95	1,300.00	550.92	42.38
1995/96	1,708.00	701.92	41.10
1996/97	2,690.00	634.00	23.57
1997/98	2,930.00	650.00	22.18
1998/99	3,460.00	670.00	19.36
1999/00	4,440.00	702.08	15.81
2000/01	5,990.00	761.02	12.70
2001/02	4,371.00	871.50	19.94
2002/03	3,656.00	1,011.55	27.67
2003/04	4,839.00	1,175.33	24.29
2004/05	5,327.32	1,379.07	25.89
2005/06	5,395.70	1,907.08	35.34
2006/07	11,515.84	2,330.63	20.24
2007/08	9,767.75	2,780.74	28.47
<b>Total</b>	<b>36,798.00</b>	<b>17,008.46</b>	<b>525.73</b>
<b>Average</b>	<b>1,936.74</b>	<b>895.18</b>	<b>27.67</b>
<b>Forecasted Value of Corporate Income Tax and Income Tax from NTC</b>			
2008/09	11,202.10	3,798.26	33.91
2009/10	12,975.98	4,598.33	35.44
2010/11	14,957.25	5,598.54	37.43

**Sources: Economic Survey of various years, MOF, HMG/Nepal**  
**(Annual report of NTC, Head Office of NTC)**

The table shows the percentage contribution pattern. It shows a fluctuating trend with very high differences in various years. It was in 30's to 40's line in first 3 years while in FY 1992/93 it was 77.30 percent and in FY 1993/94 it was 80.79 percent. This shows an irregular pattern of increase and decrease.

Similarly table 4.3.6 shows the forecasted corporate income tax and income tax from NTC. The forecasted corporate income tax is Rs. 11,202.10 million, Rs. 12,975.98 million and Rs. 14,957.25 million in FY 2008/09, FY 2009/10 and FY 2010/11 respectively. Likewise, forecasted income tax from NTC is Rs. 3798.26 millions, Rs. 4598.33 millions and Rs. 5598.54 millions for FY 2008/09, FY 2009/10 and FY 2010/11 respectively.

**Figure No.: 4.3.2**  
**Trend of Corporate Income Tax and Income Tax from NTC**  
**From FY 1989/90 to FY 2007/08**



### Relationship between Corporate Income Tax and Income Tax from NTC

To examine the relationship between Corporate Income Tax and Income Tax from NTC, CIT liner regression model are estimated. The following equations verify the effects of change in CIT and the income tax form NTC:

$$(V)CIT=-226.628+3.856*ITNTC$$

St. Error (480.544) (0.790)

$$R^2=0.665 \quad R^2=0.637 \quad F=23.846^*$$

Note,\* significant at 1 percent level or better.

The above equations defines that there is a positive relationship between change in income tax from NTC and change value of CIT. The sign of intercept term is also significant at one percent level. It means, income tax from NTC is significantly affects the CIT. The R squared and Adjusted R squared values lying around 0.65 reveal that 65% variable in income tax from NTC can be explained by CIT. F statistics also significant and overall fitness of the model, which is about 23.85.

#### **4.3.9 Contribution of Income Tax from NTC to PEs Income Tax**

PEs were established with the objective of contributing toward fulfilling the government's responsibility in the newly emerging socio-economic content. NTC is one public utility enterprises (but it is converted in the company from 2060-01-01), which is a leading enterprise in telecommunication sector. The amount of income tax, which was paid to the government, was found increasing in every fiscal year. The following table shows the place of NTC on income tax from PEs:

**Table No.: 4.3.7**

**Contribution of Income Tax from NTC to PEs Income Tax**  
**From FY 1989/90 to 2007/08**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Income Tax from PEs</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of PEs Income Tax</b>
1989/90	240.90	75.95	31.53
1990/91	162.20	80.64	49.72
1991/92	171.10	70.48	41.19
1992/93	255.30	206.38	80.84
1993/94	534.10	449.17	84.10
1994/95	860.20	550.92	64.05
1995/96	1,144.50	701.92	61.33
1996/97	1,231.10	634.00	51.50
1997/98	1,317.80	650.00	49.32
1998/99	1,526.50	670.00	43.89
1999/00	2,198.80	702.08	31.93
2000/01	2,928.00	761.02	25.99
2001/02	1,769.30	871.50	49.26
2002/03	1,251.00	1,011.55	80.86
2003/04	2,056.60	1,175.33	57.15
2004/05	1,331.56	1,379.07	103.57
2005/06	1,858.88	1,907.08	102.59
2006/07	1,018.32	2,330.63	228.87
2007/08	1,839.28	2,780.74	151.19
<b>Total</b>	<b>23,695.44</b>	<b>17,008.46</b>	<b>1,388.87</b>
<b>Average</b>	<b>1,247.13</b>	<b>895.18</b>	<b>73.10</b>

**Sources: Economic Survey of various years, MOF, HMG/Nepal**  
**Annual report of NTC, Head Office of NTC**

Table No. 4.3.7 presents the contribution of income tax from NTC on total income tax from PEs during FY 1989/90 to FY 2007/08. The contribution of NTC to total income tax from PEs was highest. In FY 1989/90 the share of NTC

to total income tax from PEs was 31.53%. In FY 1990/91 the percentage share of NTC on income tax from PEs went up to 49.72 percent and then declined to 41.19% in FY 1991/92. The percentage of income tax from NTC to income tax from PEs is in fluctuating trend.

If we analyze the amount of income tax collection from NTC it has done a great deal. In FY 1989/90 the amount contributed by NTC in income tax was Rs. 75.95 millions while if we see the last year of our study period i.e. FY 2007/08 it is Rs. 2780.74 millions which show it has increased a lot.

### **Relationship between Income Tax from PEs and Income Tax from NTC**

To examine the relationship between income tax from PEs and Income Tax from NTC, ITPEs linear regression model are estimated. The following equations verify the effect of change in ITPEs on change income tax from NTC:

$$(VI) \quad ITPEs = 9.068 + 2.080 * ITNT$$

St. Error (295.040) (0.485)

$$R^2 = 0.605 \quad R^2 = 0.572 \quad F = 18.406^*$$

The above equation defines that there is positive relationship between changes in income tax from NTC on change value of ITPEs. The sign of intercept term is significant at one percent level. It means that, income tax from NTC significantly affects the income tax from PEs. The R square and adjusted R square values lying around 0.06 reveal that 60% variable in Income tax from NTC can be explained by ITPEs. F test is also significant and overall fitness of model, which is about 18.4.

## **4.4 Resource Gap Pattern of Nepalese Government**



#### 4.4.1 Resource Gap in Nepal

Nepal has been facing a serious resource gap problem in her finances from the beginning of her development phase to the present time. To fulfill his growing resource gap a large amount of external aid loan and internal loan was borrowed but scarcity of resources seems to be never ending problem for Nepal. Resource gap pattern Nepal is presented in the table 4.4.1:

**Table No.:4.4.1**  
**Resource Gap of Nepal from the FY 1989/90 to 2007/08**

(Rs. In Million)

Fiscal Year	Total Expenditure (A)	Total Revenue (B)	Resource Gap (A-B)
1989/90	19,669.30	9,827.50	9841.80
1990/91	23,549.80	10,730.90	12818.90
1991/92	26,418.20	13,512.70	12905.50
1992/93	30,897.70	15,148.40	15749.30
1993/94	33,597.40	19,580.90	14016.50
1994/95	39,060.00	24,605.10	14454.90
1995/96	46,542.40	27,893.10	18649.30
1996/97	50,723.70	30,373.50	20350.20
1997/98	56,118.30	32,937.50	23180.80
1998/99	59,579.00	37,247.30	22331.70
1999/00	66,272.50	42,893.70	23378.80
2000/01	79,835.10	48,893.90	30941.20
2001/02	80,072.20	50,445.60	29626.60
2002/03	84,006.10	56,229.90	27776.20
2003/04	89,442.60	62,331.10	27111.50
2004/05	98,698.65	70,122.70	28575.95
2005/06	110,880.00	72,282.00	38598.00
2006/07	133,610.00	87,199.70	46410.30
2007/08	161,350.00	104,939.30	56410.70

**Source: Economic Survey of various years, MOF, HMG/N**

The value of resource gap is also in fluctuating trend. Some years the resource gap has increased and in some years it has decreased. The resource gap in FY 1989/90 is Rs. 9841.80 millions in FY 2007/08 is Rs. 56410.70 millions. Resource gap is the internal deficit of the country. Increasing trend in resource gap in the country is not good for nation.

#### 4.4.2 Contribution of PEs and NTC to Fulfill Resource Gap

The value of resource gap is increasing every fiscal year except few years. The value of income tax from PEs and NTC is also increasing in the study period, which is presented in the table 4.4.2

**Table No.: 4.4.2**  
**Contribution of PEs and NTC to Fulfill Resource Gap**  
**From the FY 1989/90 to 2007/08**

(Rs. In Million)

Fiscal Year	Resource Gap	Income Tax from PEs	Income Tax from PEs as % of RG	Income Tax from NTC	Income Tax from NTC as % of RG
1989/90	9,841.80	240.90	2.45	75.95	0.77
1990/91	12,818.90	162.20	1.27	80.64	0.63
1991/92	12,905.50	171.10	1.33	70.48	0.55
1992/93	15,749.30	255.30	1.62	206.38	1.31
1993/94	14,016.50	534.10	3.81	449.17	3.20
1994/95	14,454.90	860.20	5.95	550.92	3.81
1995/96	18,649.30	1,144.50	6.14	701.92	3.76
1996/97	20,350.20	1,231.10	6.05	634.00	3.12
1997/98	23,180.80	1,317.80	5.68	650.00	2.80
1998/99	22,331.70	1,526.50	6.84	670.00	3.00
1999/00	23,378.80	2,198.80	9.41	702.08	3.00
2000/01	30,941.20	2,928.00	9.46	761.02	2.46
2001/02	29,626.60	1,769.30	5.97	871.50	2.94
2002/03	27,776.20	1,251.00	4.50	1,011.55	3.64
2003/04	27,111.50	2,056.60	7.59	1,175.33	4.34
2004/05	28575.95	1,331.56	4.66	1,379.07	4.83
2005/06	38598.00	1,858.88	4.82	1,907.08	4.94
2006/07	46410.30	1,018.32	2.19	2,330.63	5.02
2007/08	56410.70	1,839.28	3.26	2,780.74	4.93

Source: Economic Survey of various years, MOF, HMG/N

Annual Report of NTC, Head Office of NTC

Income tax from PEs as a percentage of resource gap is in fluctuating trend. The resource gap percentage of income tax from PEs to resource gap lies between 1.27% to 9.46%. It was 2.45% in FY 1989/90 and fluctuated for different years and reached 3.26% in FY 2007/08.

Income tax from NTC as a percentage of resource gap is also in fluctuating trend. Its contribution was .077% in FY 1989/90 and decreased and reached to .55% in FY 1991/92. Contribution percentage was increased and reached up to 3.81% in FY 1994/95. Then again it decreased and increased for some years. It was 4.93% in last year of our study i.e. in FY 2007/08.

## **4.5 Findings**

On the basis of data presentation and analysis some important findings of this study are summarized below:

1. The study shows the contribution of tax revenue and non tax revenue in average for FY 1989/92 to 2007/08 is 78.17% and 21.83% respectively. It shows that tax has been a major source of revenue mobilization.
2. The contribution of tax to total revenue was 78.40% in FY 1989/90. It was 81.15% in 2007/08. It shows that the contribution of tax revenues is not in highly fluctuating trend. Tax revenue is the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of direct tax on total tax revenue in FY 1989/90 and FY 2007/08 was 18.63% and 27.11% and contribution of indirect tax was 81.37% and 72.89% respectively. It shows the higher contribution of indirect tax than direct tax in tax revenue.
3. The contribution of custom duty, excise duty, sales tax/VAT, contract tax and other tax on indirect tax were 42.82%, 17.50%, 26.32%, 2.72% and 3.93% in FY 1989/90 and the contribution of each were 33.93%, 18.03%, 48.04%, 0% and 0% in FY 2007/08. It shows that excise and sales

tax/VAT is increasing and custom, contract tax and other tax are decreasing.

4. The contribution of income tax, land revenue tax, house and land registration and other tax on direct tax were 66.28%, 5.20%, 26.28% and 2.24% in FY 1989/90 and the contribution of each were 82.63%, 0%, 12.74% and 0% in FY 2007/08 respectively. In composition of direct tax income tax is increasing whereas other components are decreasing in our study period.
5. Tax Revenue/GDP ratio in FY 1989/90 was 7.73% and it was 10.37% in FY 2007/08. It shows that the Tax /GDP ratio of Nepal is not good.
6. The Indirect Tax /GDP ratio in FY 1989/90 was 6.29% and it was 7.56% in FY 2007/08. The Direct Tax /GDP ratio was 1.44% in FY 1989/90 and it was 2.81% in FY 2007/08.
7. The Direct Tax/GDP, direct tax/total revenue and direct tax/total tax revenue ratios were 1.44%, 14.60%, 18.63% in FY 1989/90 and 2.81%, 22%, 27.11% in FY 2007/08 respectively.
8. The Income Tax/GDP, income tax/total revenue, income tax/tax revenue, income tax/direct tax revenue ratios were .95%, 9.68%, 12.35% and 66.28% respectively in FY 1989/90 and each ratio were 2.32%, 18.18%, 22.40% and 82.63% in FY 2007/08 respectively.
9. The contribution of income tax from PEs, Semi PEs, Private corporate bodies, individuals tax, remuneration tax, interest to total income tax were 25.33%, 0.25%, 0%, 65.71%, 5.33% and 1.38% to income tax in FY 1989/90 respectively and each were 9.64%, 0%, 37.27%, 31.30%, 12.03% and 5.04% of income tax in FY 2007/08 respectively. Major source of corporate income tax is income tax from PEs.
10. Income tax from PEs/GDP was 0.24% in FY 1989/90 and it was .22% in FY 2007/08, Its average contribution to GDP was 0.35% and its minimum and maximum percentage of contribution to GDP was 0.12% and 0.74% respectively.

11. Income tax from PEs/Government revenue was 2.45% in FY 1989/90 and it was 1.75% in FY 2007/08. Its average contribution to government revenue was 3.37% and its minimum and maximum percentage of contribution to government revenue was 1.17% and 5.99% respectively.
12. Income tax from PEs/Total tax revenue was 3.13% in FY 1989/90 and it was 2.16% in FY 2007/08. Its average contribution to total tax revenue was 3.84% and its minimum and maximum percent of contribution to government revenue was 1.41% and 7.53% respectively.
13. Income tax from PEs/Direct tax revenue was 16.79% in FY 1989/90 and it was 7.97% in FY 2007/08. Its mean contribution to Direct tax revenue was 16.90 and its minimum and maximum percentage of contribution to direct tax revenue was 5.37% and 28.82% respectively.
14. Income tax from PEs/Total income tax was 25.33% in FY 1989/90 and it was 9.64% in FY 2007/08. Its mean contribution to total income tax revenue was 22.09% and its minimum and maximum percentage of contribution to total income tax revenue was 6.13% and 32.53% respectively.
15. Income tax from PEs/Revenue from PEs to HMG was 15.59% in FY 1989/90 and it was 30.77% in FY 2007/08. Its average contribution to revenue from PEs to HMG was 24.90%. Its minimum and maximum percentage contribution to revenue from PEs to HMG was 7.66% and 43.52% respectively.
16. The share of income tax from NTC to GDP of Nepal has a fluctuating trend. It was 0.08% in the FY 1989/90 and its contribution to GDP was 0.34% in the FY 2007/08. Its average contribution to GDP was 0.22% in the study period. Income tax from NTC significantly affects the GDP. The R squared and Adjusted R squared values lying around 0.86 reveal that 86% variable in income tax from NTC can be explained by GDP. F statistics also signifies overall fitness of the model, which is about 82.016.
17. It has been observed that the contribution from income tax from NTC to government revenue was 0.77% and 2.65% in the FY 1989/90 and FY

2007/08 respectively. Its average contribution to government revenue was 1.83% for the study period. Income tax from NTC significantly affects the total revenue. The R squared and Adjusted R squared values lying around 0.87 reveal that 87% variable in income tax from NTC can be explained by government revenue. F statistics also signifies overall fitness of the model, which is about 89.43.

18. The contributions of income tax from NTC to TTR was 0.99% and 3.27% in the FY 1989/90 and FY 2007/08 respectively. Its average contribution to TTR is 2.33% for the study period. Income tax from NTC significantly affects the TTR. The R squared and Adjusted R squared values lying around 0.89 reveal that 89% variable in income tax from NTC can be explained by TTR. F statistics are also significant and overall fitness of the model which is about 96.12.

19. In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue because of low level of income and standard of living in the country. There is substantial contribution of income tax. The average share of income tax from NTC significantly affects the direct tax. The R squared and Adjusted R squared values lying around 0.82 reveal that 82% variable in income tax from NTC can be explained by DT. F statistics is also significant and overall fitness of the model, which is about 60.90.

20. The contribution percentage of income tax from NTC and Total Income Tax was 7.98% and 14.58% in the FY 1989/90 and FY 2007/08 respectively. Its average contribution was 12.65% for the period of study years. Income tax from NTC significantly affects the Total Income Tax. The R squared and Adjusted R squared values lying around 0.77 reveal that 77% variable in income tax from NTC can be explained by Total Income Tax. F statistics is also significant and overall fitness of the model, which is about 42.40.

21. The share percentage of income tax from NTC and corporate income tax was 31.26% and 28.47% in FY 1989/90 and FY 2007/08 respectively. Its

average contribution is 27.67% for the study period. Income tax from NTC significantly affects the Corporate income tax. The R squared and Adjusted R squared values lying around 0.65 reveal that 65% variable in income tax from NTC can be explained by Corporate Income Tax. F statistics is also significant and overall fitness of the model, which is about 23.85.

22. The contribution percentage between income tax from NTC and income tax from PEs was 31.53% and 151.19% in FY 1989/90 and FY 2007/08 respectively. Average contribution percentage for the study period is 73.10%. Income tax from NTC significantly affects the income tax from PEs. The R square and Adjusted R squared values lying around 0.06 reveal that 60% variable in income tax from NTC can be explained by income tax from PEs. F test is also significant and overall fitness of model, which is about 18.40.
23. The value of research gap is in increasing trend except in few years. Research gap was Rs. 9841.80 millions in FY 1989/90 and Rs. 56410.70 millions in FY 2007/08.
24. Income tax from PEs as a percentage of resource gap is in fluctuating trend. Its minimum and maximum percentage contribution is 1.27% and 9.46% respectively. It was 2.45% in the FY 1989/90 and 3.26% in the last FY 2007/8.

## **CHAPTER- V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary and Conclusion**

In developing countries like Nepal, lack of sufficient financial resource is the main constraint of the national economic development. A lot of funds are required to meet the additional financial requirement for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing year by year. To meet the additional capital requirement, Nepalese government can use internal and external resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit of Nepal has been increasing.

To solve the problem of fiscal deficit, income tax should play important role. But in Nepal, income tax has not been seen mobilized properly.

In Nepal, income tax appeared only in FY 1959/60 in the form of business profit and remuneration tax. The ITA introduced a comprehensive income tax 1962. ITA 2002 also replaced this act. The ITA 2002, and income tax rules 2002(2059) are the existing law relating to income tax administration. Currently, income tax system encompasses three taxes. These are income tax from employment, income tax from business and income tax from investment.

In the FY 1889/90, contribution of income tax from PEs to government revenue was 2.45 percent. In the year 2007/08, it was 1.75 percent. Similarly, in corporate tax, PEs share has covered more than 50 percent. In initial stages, PEs



contributed almost total share of corporate income tax. In the FY 1989/90, the share of corporate income taxes from PEs was 99.14 percent. And its share has decreased to 18.83 percent in 2007/08.

In total income tax revenue from PEs, NTC has contributed highest. NTC had 31.53 percent share of total income tax revenue from PEs in the FY 1989/90. In FY 2007/08 it has contributed about 151.19%.

The main objective of the present research was to study the structure of income tax and its contribution from PEs to government revenue of Nepal with reference to NTC. As per the nature of the study, secondary information were collected, tabulated and analyzed. Descriptive and analytical research designs have been followed in this study.

From the research on the following topic, the following conclusion had been drawn:

- The study showed the contribution of direct tax revenue had occupied major portion of tax revenue in comparison to non-tax revenue in the total tax revenue of Nepal. It showed that tax has been a major source of revenue mobilization.
- The study showed that the contribution of tax revenues is not in highly fluctuating trend. Tax revenue is the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of indirect tax on total tax revenue had occupied major portion in comparison to indirect tax.
- The study showed that sales tax/VAT is increasing and custom duty, excise duty, contract tax and other tax are decreasing.
- In the composition of direct tax, income tax and other tax percentage are increasing whereas the percentage of land revenue tax, house and land registration tax are decreasing during the study period.

- It shows that the Tax/GDP ratio of Nepal is not good. The study showed the lower contribution of tax revenue to GDP.
- The contribution of indirect tax to GDP is minimal and need to increase indirect tax is needed.
- Major source of corporate income tax is income tax from PEs.
- Income tax from PEs to government revenue showed the increasing trend.
- Income tax from PEs of total tax revenue showed the increasing trend but in minimal
- Income tax from PEs to Direct Tax Revenue showed the increasing trend but in the last year of our study it decreased by considerable percentage.
- Income tax from PEs to total income tax showed the decreasing trend.
- The share of income tax from NTC to GDP of Nepal has fluctuating trend. Income tax from NTC significantly affects to GDP. The R squared and Adjusted R squared values lying around 0.86 reveal that 86% variable in income tax from NTC can be explained by GDP. F statistics also signifies overall fitness of the model, which are about 82.016.
- It has been observed that contribution from NTC income tax to government revenue had increased. Income tax from NTC significantly affects the total revenue. The R squared and Adjusted R squared values lying around 0.87 reveal that 87% variable in income tax from NTC can be explained by government revenue. F statistics also signifies overall fitness of the model.
- Income tax from NTC significantly affects the ITR. The R squared and Adjusted R squared values lying around 0.89 reveal that 89% variable in income tax from NTC can be explained by TTR. F statistics are also significant and overall fitness of the model.
- In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue because of low level and standard of living in the country. There is substantial contribution of income tax. Income tax from NTC is significantly affects the DT. The R squared and Adjusted R

squared values lying around 0.82 reveal that 82% variable in income tax from NTC can be explained by DT. F statistics is also significant and overall fitness of the model.

- Income tax from NTC significantly affects the TIT. The R squared and Adjusted R squared values lying around .077 reveal that 77% variable in income tax from NTC can be explained by TIT. F statistics also significant and overall fitness of the model.
- Income tax from NTC significantly affects the CIT. The R squared and Adjusted R squared values lying around 0.65 reveal that 65% variable in income tax from NTC can be explained by CIT. F test is also significant and overall fitness of model.
- Income tax from NTC significantly affects the income tax from PEs. The R squared and Adjusted R squared values lying around 0.06 reveal that 60% variable in income tax from NTC can be explained by ITPEs. F test is also significant and overall fitness of model.
- The value of research gap is in increasing trend except the last three years of study period.

## **5.2 Recommendation**

In the light of finding of the study, the following recommendations are made:

1. Formally 15% to 18% Tax GDP ratio is regarded as moderate standard but Nepalese Tax GDP ratio does not maintain it. The highest ratio of it is not exceeding 10.73% during the study period. So, the government should make appropriate measures to meet the standard. For that, the government should increase the proportion/percentage of direct tax because its ratio is very low during the study period and the increment of this ratio or percentage is regarded as better than indirect tax proportion.
2. The analysis shows that contribution percentage of income tax from NTC to government revenue is fluctuating and decreasing during the study

period even the amount of contribution is increasing. It was 2.52% in FY 1995/96 and decreased to 1.89% in FY 2003/04. So, NTC should give high priority to increase the amount of revenue so that the contribution to government revenue would be increased. For that, NTC should prepare and implement profit planning and control concept effectively.

3. Contribution percentage of direct tax revenue on total tax revenue is very low. Corporate sector's income tax is a main source of direct tax revenue and PEs income tax is included in the corporate sector income tax. So, government should increase the income tax from PEs to increase the direct tax revenue.
4. Main contribution of corporate income tax is Income Tax from NTC but other PEs income tax contribution very low, so other PEs income tax should be increased by effective implementation of the PEs management.
5. The contribution of income tax from NTC to corporate income tax was 80.08% in FY 1993/94 whereas as it decreased to 24.99% in FY 2003. It indicates the decreasing contribution of income tax from NTC to corporate income tax. So, NTC should detect and invest in sufficient income generating sections.
6. The mismanagement of PEs provided increasingly burdensome to the treasury, as a large portion of the taxpayers, money required to be siphoned off to give new lease of life to such badly managed and overly politicized enterprises. So, PEs should be managed properly, PEs, which have the poor performance and near the bankruptcy situation, should be restructured or privatized. It helps to run it with business principle and generate income.
7. Broadening its coverage must widen tax base an institutions, which are philanthropic and non-profit, oriented by name but profit earner and without service attitude.
8. The income tax needs to be strengthened both for revenue and socio-economic purposes. It is to be raised through broadening the base, an effective enforcement and better tax compliances.

9. Income tax from PEs as percentage of GDP is very fluctuating. It indicates the poor performance of PEs. So, PEs should avoid such high fluctuation by improving performance.
10. The study reflects the decreasing trend of income tax from PEs as percentage of government revenue in the succeeding year of the study period. So, PEs should increase it to meet the economic objective of the government.
11. Government should increase the amount of investment on NTC to render services to the customer and generate more revenue from NTC. To increase investment, NTC should modernize its existing service rendering system in town areas and extend its coverage of services in deprived areas of the country, which is supported to increase the ratio of direct tax revenue and total tax revenue.
12. To fulfill the resource gap of economy, income tax must be imposed to land owners and property owners who have high incomes.
13. Government should apply appropriate measures to reduce the high resource gap.
14. According to analysis, income tax of NTC highly supporting to the GDP, GR, TTR, DTR, CIT and IT from PEs. Thus the government should impose appropriate tax rate considering profitability of NTC.

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