

**A STUDY ON CONTRIBUTION OF PUBLIC
ENTERPRISES TO TAX REVENUE OF NEPAL**

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Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the
Degree of **Master of Business Studies (MBS)***

SARASWOTI MULTIPLE CAMPUS

Thamel, Kathmandu

May, 2010

RECOMMENDATION

This is to certify that the thesis

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be accepted as partial fulfillment of the requirement for
Master Degree of Business Studies (MBS).*

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DECLARATION

I hereby declare that this thesis comprises my own original work and exclusive of footnotes, bibliography and appendices. This thesis entitled “A Contribution of Public Enterprises to Tax revenue in Nepal” submitted to Saraswati Multiple Campus (for Office of Dean, Faculty of Management, Tribhuvan University), which have done in the form the partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision of associate Lecturer Kul Prasad Aryal of Saraswati Multiple Campus, Lekhnath Marga, Themal, Kathmandu.

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ACKNOWLEDGEMENT

As the partial fulfillment of the MBS degree, I have prepared this report. During the course, I worked with sincerity, honesty and diligently, as far as possible. But beside my continual efforts, I also got unforgettable support from different people and parties.

I am extremely grateful and overwhelmed by their support while completing my work. Firstly, I would like to pay homage to my father and mother as well as my friends who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance, today I come in this position. So I would like to share the credit of my success with them. I am really indebted by them.

After this, I would like to express my cordial gratitude to my all teachers, who taught me up to now. For this dissertation, I would like to pay my sincere thanks to my thesis supervisor **Lecturer K. P. Aryal** and **Assistant Campus Chief of Saraswati Multiple Campus Mr. Nirmal Khadha**. Their incessant suggestion and guidance from the beginning to the end is really an appreciable effort. Their valuable support for the preparation of proposal to thesis is really praise worthy things. I am extremely indebted by their efforts despite of their busy schedule.

I am grateful to staffs of IRD, Minister of Finance and staffs of the PEs for providing me necessary documents. I want to thank all of the helpers and respondents who helped me to collect data. I would also like to express my gratitude to all other members of Saraswati Multiple Campus, especially, Bhairav Kumar Pokhrel staffs from MBS department, libraries staffs as well as all known and unknown people who supported as well as inspired me to complete this thesis.

Ultimately, my appreciation goes to University Computer Service for processing and up to final bindings nicely. I am responsible for all the errors and omissions.

.....

Bipin Shrestha
Researcher

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ABBREVIATION

| | |
|-----|------------------------|
| PEs | Public Enterprises |
| CT | Corporate Tax |
| GDP | Gross Domestic Product |
| % | Percentage |
| GR | Government Revenue |
| FY | Fiscal Year |
| IDT | Indirect Tax |
| DT | Direct Tax |
| IT | Income Tax |

Chapter 1

1. Introduction

1.1 Background of the Study

The government has main role to develop a country by introducing plans and policies. It has to spend a lot of money to develop the infrastructure of development like education, transportation, communication, electricity etc. which are very essential to public. The government collects the revenue to spend on infrastructure of development, to provide salary to the government employee etc from different sources which are categories into method i.e. external and internal sources of revenue .Foreign loans, grants and assistance external borrowing are external revenue. Tax, custom duty, excise duty, fee, funds revenue from public enterprise etc. Under it tax is the main sources of government.

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. Development activities incurred for providing transportation, education, health and public utilities facilities to the community. Government collects revenue through two sources

- a. Internal &
- b. External sources.

Developing countries like Nepal have limited sources of internal funds. Most of the development activities of the nation depend on the external sources. The external sources of financial are bilateral and unilateral grants, Loans from foreign countries and fund from donor agencies. 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 the donor countries and agencies and need to pay high interest accepting the inappropriate condition to take the loan. Government tries to finance resources through internal sources. It is very important for developing countries like Nepal to mobilize internal resources where adequate natural resources and low cost labor force are available situation of Nepal is different. Nepal is not mobilizing its natural resources effectively, Small and stagnant industrial sector, partial Monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax *efforts*, deficiencies on tax policies, laws and administration etc. exist here. Internal sources of public fund are important not only for necessary financing funds, but also for proper utilization of external sources. Based on the nature of sources, public funds are also classified into revenue (public income) and borrowing (could be external and internal). The public income or revue includes:

- Taxes
- Revenue from Government Corporations and Public Enterprises
- Fees
- Special assessment
- Fines and penalties.

Among them tax is the main sources of collecting the government revenues. In Nepal About 77percent of total revenues comes from tax revenues and the rest 23 percent from non-tax revenue. (Amatya, Pokheral and Dahal, 2061).

Seligman “A tax is a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without references to special benefit.” Kandel cited that the tax is levy paid or to be paid by the natural or an artificial person to the government without getting corresponding benefits of goods or services provided by government. Thus, taxes play vital role in the government revenue. Simply, tax is a compulsory contribution to the state from a person. The natural person or artificial person (entity or corporate body) having tax liabilities pay taxes to the government. The taxpayer does not receive the equivalent benefit from the government. Tax is paid to government and the amount of tax is spent for common benefits and interest of the people. Taxes are classified into two major

categories viz, direct tax and indirect tax. The tax directly paid by a person on whom it is legally imposed is known as a direct tax. Such tax is income tax, gift tax, interest tax, property tax, vehicle tax, house & Land tax, contract tax etc. Indirect taxation means a tax that is imposed to one person but partly or totally paid by another. Such tax may be custom duty, value added tax, entertainment tax, excise duty, sales tax, hotel tax, passenger tax etc. In Nepal, direct tax contributes about 21 percent and Indirect tax contributes about 79 percent in the tax revenue of government (Amatya, Pokharel and Dahal, 2061).

Income tax is one of the most popular direct taxes. It is charged on person income according to the law of nation. Income includes all the income, which are receiving from business, investment & employment. Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayer. Income tax plays an important role in the Nepalese economy. It is the major source of government revenue. It is recognized as a good financial tool to narrow inequality of income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industry, which are established in remote area. It is also helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see the public money may not be misused.

In Nepal industrialization is in its infant stage still. Slowly the country is stepping towards the industrialization by establishing different kinds of industries and enterprises due to the open policy of the government. Nepal follows the open policy of mixed economy where public and private sector enterprises and industries are in existence for the development of country's economy that complement each other in the development process from very inception of economic planning process back in 1956. Since then substantial initiative has been taken in promoting, protecting, and developing public enterprises (PE'S). A PEs has been defining as a productive entity/organization owned or controlled by public authorities, which sells its output in the market. In some cases, these tended to be capital and /or technology-intensive operations that were regarded as essential to economic progress or to national security, such as mining, hydropower and petroleum products.

Public enterprises (PEs) become quite popular in 20th century in the developing countries. It has been considered as one of the best effective economic tools for economic development and social justice in the countries. PEs has a nearly half-century –long history in Nepal. The first one emerged in 2010 B.S. with the partial nationalization of Nepal Bank Ltd, the first commercial bank established in the private sector in 1994 B.S. There has been a rapid growth in the number of PE'S after 2013 B.S. The number crossed the 60 mark in 2046/47, including 51 non-financial and nine financial enterprises. Most of the country's PEs was built as turnkey projects under bilateral agreement and with the help of international donors. In Nepal, the public enterprise were established in public services, industry, trade, finance and other sectors to create the infrastructure for basic services and also because the private sector was seen as inefficient in important areas; the capital investment capability was low, and because technical know-how development was still in a very primary stage. After Nepal Bank Limited was established in 1954 as a public enterprise, like Nepal Industrial Development Corporation and Royal Nepal Airlines Corporation also came into being. In the industrial sector also, industries like the Janakpur Cigarette Factory, Birgunj sugar Mill, and Bansbari Leather Shoe were established in 2018. Subsequently, banks, business sector, telecommunication, electricity and water supply in the services sector; cement, bricks, medicines and textiles in the industrial sectors came into existence.

Revenue collection from the PEs is the one of sources of direct tax. Public enterprise is the main body of nation which is state owned organization and managed by government. It is established by government contributing total or majority capital. The government invests at least 51 percent of the total amount of paid up capital. It is managed by the government nominating board of directors of representatives. It is industrial or commercial undertaking which involves in the production and distribution of goods and services at reasonable price. It is and autonomous business unit, which generates incomes by selling goods and services in order to meet its expenses. It maintains its accounts independently. It is a distinct legal entity having corporate statues. It has perpetual life with limited liabilities. It uses a common seal and its official signature. It is a service oriented enterprise, which is accountable to the public through parliament. It is established for public service and welfare, sound industrial and commercial base and upliftment of economy of the country. The

government has a lot of responsibilities towards the nation and its people. It is not limited only to the political and administrative sectors but to the spread of development of economic and business sectors too. Thus, for the development of an economy and business in the country, public enterprise came into existence. Nepal Bank Ltd. was the first public enterprise which was established in 2051 B.S. Nepal Rastra Bank, Nepal Industrial Development Corporation, Nepal Airline Corporation, Nepal Oil Corporation and Nepal Electricity Authority are some examples of PEs. These PEs are providing services in the field of finance, commerce, industry, construction and so on. Therefore, there is strong need to evaluate the contribution of tax revenue collected from PEs in Nepal. There were 64 PEs before the privatization but now, there are only 43 PEs in Nepal. Out of 43, 7 are in industrial sector, 6 are in trading sector, 7 are in service sector, 5 are in social service sector, 3 are in public utility sector and 8 are in financial sector.

This study is to find the revenue collection from PEs and its contribution to the government revenue and development works to the nation. It has attempted to specify the real status and contribution of income tax in National Revenue of Nepal, structure of tax in Nepal, tax administration in Nepal and the contribution of income tax from PEs to government revenue.

1.2 Statement of Problems

Nepal is one of the least developed and agro base country in the world. To develop the country, the government needs financial support or resources. Without it, domestic resources cannot be mobilized; 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 gap of resources mobilization. Nowadays, Nepalese tax system is facing several problems like tax evasion, poor tax administrative etc. The most of the PEs is unable to deliver their expected services, their productivity and returns are very poor. Financial position of PEs is unsatisfactory and is likely to become an increasing burden to the government. They cannot even maintain their financial statement, low level of morale and honesty etc. Developing countries like Nepal have limited sources of internal funds so most of

the development activities depend on the external funds. It increases the burden to the nation. That's why the budget of our country always deficit. The external funds are burden to the nation due to need to pay that amount in specific period on fixed interest rate. So, government should have to mobilize the maximum resources to generate the taxation. The government formulates the plans and policies favorable to open the industry, increasing tax rates or removing the tax evasion.

The problems of the study are defined in the following questions

-) What is the resources gap pattern of Nepalese government?
-) What is the structure of tax in Nepal?
-) What is the contribution percentage of tax of public enterprises to tax revenue?
-) What is the contribution percentage of tax of public enterprises to government revenue?
-) What are the problems of revenue collection from tax in PEs?

1.3 Objectives of Study

The main objective of the study is to evaluate and analyze the effectiveness of income tax and revenue collection in Nepal. Some of the specific objectives of the study are as follows:

-) To study and analysis the contribution of tax revenue from PEs to Tax revenue
-) To analyze the contribution of tax revenue from PEs to the government revenue.
-) To examine the problems of revenue collection from tax in PEs.
-) To analyze the tax structure planned of Nepal.
-) To provide the suitable suggestions and recommendations for efficient implementation and improvement of tax in Nepal with reference to PEs.

1.4 Significance of the Study

The significance of this study can provide guidelines for government, PEs, researcher and others. This study would be helpful to the government to find the serious problems which are facing on resources gap and high dependency of foreign loan and grants. PEs can help to fulfill the resource gap through tax as government revenue. The study evaluates the contribution of tax paid by PEs to government which is helpful to make better policy for PEs. This study would be helpful to those researchers who are looking for impacts of contribution of tax on the government revenue.

1.5 Limitation of the Study.

The present study is not free from the limitations. The limitations of this study are as follows:

- a. The study is based in secondary data. The reliability depends on it.
- b. Due to the small size, it may not fully represent Nepal as a whole.
- c. The study has covered data only fiscal year 2061/62 to 2065/66
- d. This study has been conducted to fulfill the requirements of the MBS programmers of T.U. for the prescribed time.

1.6 Organization of the Study:

This thesis study has been divided into five main chapters which are as follows:

Chapter 1 Introduction

This chapter covers the background of the study, significance of the study, objectives of the study, statement of the problems and limitation of the study.

Chapter 2 Review of literature

This chapter included two main aspects conceptual framework and review of related studies.

Chapter 3 Research Methodology

This chapter represents as a form of tools to collect data, techniques for the study and analysis of data.

Chapter 4 Presentation and Analysis of Data

This is the main part of the study. Tabulating data will be process and analyzing according to meet the objectives in descriptive way. The data and information will be present in graphs, charts, diagram, simple percentage and other necessary tools and technique wherever will be necessary.

Chapter 5 Summary, Conclusions and Recommendations

This chapter will deal with summary, conclusion and recommendation and the final of this dissertation the bibliography and necessary annex are enclosed.

CHAPTER - 2

REVIEW OF LITERATURE

Government expenditure is increasing day by day because of demand of time, increase in population, social progress, increase in price, security etc. To meet the growing public expenditure the government has to manage its fund. It is received from different sources. To fulfillment the responsibility, the government collects revenue from public enterprises, specially assessment, fees, fines and assistance. Among them tax is main source of government revenue. In simple terminology tax is a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the tax payers according to law.

“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.” Prof. Seligman. (Dhakal, 2058, P.1-2)

“Taxes are general contribution of wealth of wealth levied upon persons: natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states”. Plehn (Dhakal, 2058; P.2).

These definitions of tax clearly points out:

-) Tax is a compulsory levy and taxpayer should not expect of particular return of goods or services by the government
-) Tax is a liability imposed upon the tax assesses who may be an individual or groups of individuals, or other legal entities.
-) Tax amount is spent for common interest of people.
-) Tax is imposed as per government rules and regulations.
-) Tax is a major head of internal revenue for government: the government utilizes the collected taxes for peace security day to day administration, economic development program and health and so on.

Taxes are broadly divided in two categories:

-) Direct tax
-) 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, and contract tax. 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 his or her 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, passenger tax etc.

Taxation is a major instrument of social and economic policy.

-) 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.

2.1 Concept of Income Tax

After the great depression of the 1930's the function of government has been increased considerably. Government has got various sources to collect revenue. Among various sources of revenue tax is a major source. Generally tax is defined as compulsory payment to the government. Everybody upon whom it is imposed should pay tax.

Income tax is imposed on net income of individual and corporation must bear the burden of tax imposed on them. Generally, income means the inflow to 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 deduction. It is a best measure economic of a person as well as a nation. Higher income denotes the high living standard and lower income refers to the low living standard of people. Economists define the term income in a broad sense it is an economic gain receipt to a person during a particular period by way of wages, interest, profits and rent. The money income of the people is used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as below:

$$Y=C+S$$

Where,

Y = Income

C = Consumption

S = Saving

According to income tax Act 1974 (2031) “Income means the income earned or received in cash or kind from the sources as besides employment and investment.”

In Income Tax Act 1974 (2031) there were five heads of sources of income. They were

-) Income from Agriculture
-) Income from Industry, Business. Profession or Vocation
-) Income from Remuneration.
-) Income from House and Land Rent
-) Income from Other sources

The new Tax Act 2059 (2058) was passed and implemented for 1st April 2059(Chaitra19, 2058). This act defined the term as income of any person derived from employment business and investment and accumulated income calculated

according to this act. This act, has classified the income into three different heads, they are

-) Income from Business
-) Income from Employment
-) Income from Investment.

Tax means income tax to be paid or would be payable according to income tax act or prevailing law of Nepal. According to this definition tax includes additional fees, deposits and fines. The constitution of Kingdom of Nepal 2047 has prescribed that “No tax shall be levied and collected except in accordance with the law.” Therefore only taxable income as calculated by the prevailing law is subject to tax so that the objective and principle of taxation will be fulfilled (Income Tax Act, 2058).

Income tax refers to the tax levied on the income of a person and profits the corporation for the specified time period, particularly one year. In a broad sense, income tax is a levy based upon the production or receipts or gain of the tax payers within a definite period of time.

2.2 Concept of Corporate Tax

A company or a corporate body is a voluntary association of persons formed to run business activities for fulfilling the objectives of earning profit by collecting capital and selling shares. A person or some persons interested to carry on any business or mercantile activity or other lawful trade with the motivation of earning profit by contributing money or money's worth incorporate corporations. Corporate bodies conduct business and generate profit. Corporate tax is a tax levied on the corporate bodies contrast to unincorporated enterprises. So corporate tax comes from the profit, which made by corporate bodies in a particular time period. The history of corporate tax is not long. It was started in 1909 in USA when 1percent excise was levied on the corporation i.e. companies on the ground of the privilege enjoyed. After this all the developing countries followed the corporate tax. Now it is contributing a substantial amount of revenue to the state treasury of countries. Corporate tax rate is being increased and decreased at short intervals of time. Corporate tax was initially very low. It was increased rapidly after the First World War and has started to decline after

the 1980s. American chief Justice Marshall defines company or a corporate body as a person, artificial, invisible, intangible and existing only in the eyes of the law. Being a mere creation of the law, it possess only those properties which the charter of its creator confers upon it, either expressly or identical to its very existence. The above definition clearly states that a company or a corporate body can be defined into transferable shares with limited liability. It has own property. It can execute contract, raise debt and generate profit.

2.2.1 Development of Corporate Tax in Nepal

Nepal has started informal taxation already from the beginning of the Lichhavi period. Although Nepal has a long history of taxation, the history of corporate tax is not so far long, corporate tax was first introduced only in 1960. During the early days, corporate tax was not differentiated from the personal income tax. The same personal tax rate was imposed to the entire tax payer in progressive manner and exemption given to companies was withdrawn. Nepal originally combined corporate income tax and individual income tax, the same rate structure was designed for the corporate income and other incomes for many years. In 2043/44 a flat rate of corporate income was introduced for the Government Corporation and public Limited Corporation listing with the security exchange centre. Corporate tax was extended to private limited companies in 2050/94 and the partnership firms in 2052/53.

Income Tax Act 2031/32 was introduced with new provisions. The finance act under this act introduced a separate provision for the companies. Similarly, the finance act 2042 made provisions of giving 5 percent tax rebate from higher marginal rate of 55 percent to listed public companies and the government enterprises. The FY 2043/44 changes the nature of tax rate to the corporate bodies (companies) from the progressive tax rate to flat tax rate. In this time the tax rate was 40 percent flat rate for all listed companies. The same finance act imposed tax on the dividend also to be deducted at the source rate of 20percent. But the dividend tax system was changed exempting dividend to a level of 85 percent in 2044/45 and the cent percent in 2047/48. Compulsory self-tact assessment system for public and private limited companies was introduced in the Finance act 2049. The additional change was made that be taxing corporate income at flat rate to the private limited company and enacted

from the financial year 2051/52. This change abolished the discrimination between private companies and public companies. Another major change carried out by FY 2055/99 was the inclusion of dividend of the non- industrial companies within the tax net. The initial corporate income tax amount in 2017/18 was 25%. It was increased to 60percent in the FY 2032/33. It was dropped to 50percent in 1979/80 and continues to 1981/82. Once again, the rate was increased up to 55percent in 2039/40 and was stable for 3 years i.e. up to 1986. And declined thereafter to 40percent and 30percent for up to 1991/92 and now this rate is 20percent for special industry and 25percent for the general industry and 30 percent for the bank and finance companies.

2.2.2 Corporate Income Tax

Corporate Income tax is a compulsory levy of the government. It is levied on corporate income. Since the fiscal year 2043/44, the corporate income tax has been introduced.

Initially the government enterprises and listed companies in security exchange center of Nepal were paying corporate income tax on their net profit assessed by the tax officer (Finance Act, 2043).

The income from PEs, Semi PEs, Public Ltd. Companies and Private ltd companies are actually treated as the corporate income for the corporate income tax in position. Private Ltd. Companies are established and managed by one or more owner but the public limited companies are established in participation of a large number of shareholders and managed by a team of experts of different discipline. These both companies are run to maximization of profit or wealth but PEs are established to maximize public interest rather than profit maximization and they are owned by government (Pradhan, 2058, P.42).

The after tax profit is disposable income of the taxpayers. High rate of corporate income tax minimizes disposable income and vice versa. The big stockholders of the corporation are in position to control and they are aware, with the corporate income tax.

PEs is run by the government and the whole amount of income generated by those enterprises is belonged to the government either in form of corporate income tax or in form of reserve and surplus or dividend. The government can withdraw the amount from PEs but cannot take out from the public limited, companies and private limited companies. Though private and public limited companies are crucial in corporate income tax, PEs also contributes in this Meld keeping its public interest objective (Bhattarai, 2054). PEs holds the second top most place of whole income tax structure.

The corporate Income tax is direct tax, which cannot: be shifted from the corporation. There is a widespread belief, especially in the business community that the tax is fully shifted forward to consumers, but much of the criticism of the tax also from the business community is based on the tax reduce the real Income of the stockholders (Due, 1956 P. 12).

In developing country like Nepal, the corporate development is very necessary for the economic development process. Therefore it is required to exploit the available resources of the country. The corporate body would generate income through the exploitation of resources of the country and the government levies taxes. When corporate development takes place in a country and corporation are able to generate more revenue, automatically the government can collect a substantial amount of revenue through corporate income tax.

2.2.3 Corporate Tax Rate Structure in Nepal

Developing countries like Nepal need to boost their economic condition by developing industries and trade within the country. Tax act is the base of measurement of tax liability. It should not be high only for the maximum revenue but should be activator of private investment. Imposing of tax on corporate profit was started with the enactment of the Business profit and Remuneration Acct 2017. The starting corporate tax rate was 25 percent and it was levied on progressive way. The tax amount was calculated on different slabs before FY 2042/43. The corporate Tax rate structure was combined with individual tax rate structure. The reason was the number of companies was limited and the family generally managed private companies. In the year 2042/43 the progress tax rate structure was abolished in case

of government enterprises and public limited companies listed in the Nepal Stock exchange because enterprises used to split into different units to the private companies also was abolished in the FY 2052/53. Thus the flat rate system was been continues for all corporate bodies since the FY 2052/53. In the FY 2032/33 the corporate tax rate was increased up to 60percent the maximum rate from the 25percent. During 2017/18 to 2032/33, increment of rates was made three times. After FY 2032/33, the tax rate was again decreased to 51 and 50percent. This rate was again increased to 55 percent and remains continued from 2039/40, to 2044/45. In the year 2044/45, the listed public companies were levied 10percent less than others. This concession was given to such companies by only 5percent in the year 2042/43. After the FY 2044/45, the tax rate was continuously decreased. Now it is 20percent to industry (except cigarette and alcohol), 25percent to general companies and 30 percent bank and finance companies. Special fee 3percent of taxable income was levied to all corporate bodies. Now it is decreased to 1.5percent as surcharge (additional income tax since FY 2062/63).

Table 2.1
Corporate Tax Structure of Nepal

| Year | Marginal Tax Rate | | Nature of tax rate |
|-----------------|-------------------|----------------|--------------------|
| | Pvt. Company | Public Company | |
| 2017/18-2019/20 | 25 | 25 | progressive |
| 2020/21-2021/22 | 30 | 30 | „ |
| 2022/23-2023/24 | 40 | 40 | „ |
| 2024/25 | 55 | 55 | „ |
| 2025/26-2031/32 | 55 | 55 | „ |
| 2032/33 | 60 | 60 | „ |
| 2033/34-2035/36 | 51 | 51 | „ |
| 2036/37 | 50 | 50 | „ |
| 2037/38-2038/39 | 50 | 50 | „ |
| 2039/40 | 55 | 55 | „ |
| 2040/41-2041/42 | 55 | 55 | „ |
| 2042/43 | 55p | 55f | Progressive & flat |

| | | | |
|-----------------|----------|----------|-----------|
| 2043/44-2044/45 | 55p | 55f | „ |
| 2045/46-2046/47 | 50p | 50f | „ |
| 2047/48-2048/49 | 40p | 40f | „ |
| 2049/50-2051/52 | 35p | 35f | „ |
| 2052/53 | 33 | 33 | Flat |
| 2053/54 | 30 | 30 | „ |
| 2055/56-2059/60 | 20-25&30 | 20-25&30 | Flat rate |

Sources: Kandel, P.R (2060) corporate Tax system and Investment Behavior in Nepal and budget Speech 2059/60

Note:

- 20 percent tax rate for special industries
- 25 percent tax rate for general industries producing Liquor and Tobacco
- 30 percent tax rate for non-industries for banking, Finance and insurance business.

2.2.4 Corporate Tax Planning

Tax planning is also one of the ways of reducing the tax amount by the taxpayer. However, in contrast to tax evasion, tax avoidance and tax delinquency, it is legal, ethical and economic.

The word tax planning is made from the combination of two words taxes planning. Tax means compulsory payment to the government and claiming means taking decision about the futures by choosing the best from different alternatives. Every business organization has to make decision while conducting as business activities. That means every; business organization uses to plan as regards t its future activities. Such, future activities may be of short term, medium term or long term and operational or strategic.

If tax factor is considered while planning the business activities of an organization, it is tax planning. For the purpose of enhancing the investment environment in a

country, the government provides different types of facilities to the business organizations. Such facilities include reduction in tax rate, providing tax holiday, investment allowance, depreciation facility etc. tax planning means the use of all these facilities given by the government to reduce the tax liability. In other words, tax planning is the scientific planning of the companies' operations in such a way as to attract minimum liabilities of tax or the postponement of tax liability for the subsequent period by availing of various incentives, concessions, allowances, rebates and relieves. It is not only the planning of infrastructure of the business and industries but also the planning of its various projects from time to time and its day to day activities so as to acquire the maximum facility as per the existing law of the country. In short, it is a judicious use of tax incentive provided by the government. To conclude, we can say that tax planning is a scientific planning of company operations. It is economic, legal and ethical activity. It is the use of various incentives, concessions, allowances, rebates etc. and it is an activity related to futures. It has the objectives of

- a) Reduction of tax liabilities
- b) Minimization of litigation,
- c) Productive investment,
- d) Healthy growth of the economy, and e. economic stability. (Kandel, 2060, P.151)

2.3 Public Enterprises:

2.3.1 Meaning of Public Enterprises (PEs)

Public enterprises are generally owned and controlled by government and are usually autonomously organized with the government providing the initial capital and being responsible for a continuous overview of their activities.

The term 'public enterprise' has been defined differently by different agencies and government to suit their own respective situation. UN has defined PE as "those organization, namely governmental enterprises and public corporations, which are entirely or mainly owned and or controlled by the public authorities consisting of

establishment which by virtue of their kind of activities, technology and mode of operation are classified as industries”.

Public enterprise plays a very important role in most of the developing countries. The role of public enterprises differs from country to country basically due to political philosophy of existing governments. Public enterprises come into existence either by the way of deliberate policy of the government to bring certain activities under government control by creating new institution or by nationalizing them from private sector.

In fact, public enterprises is an institution operating a service of an economic or social character, on behalf of the government, but as an independent legal entity, largely autonomous in its management, through responsible to the public, through government and parliament and subject to some direction, by the government, equipped on the other hand with independent and separate funds of its own and the legal and commercial attributer of a commercial enterprises. Public enterprises are generally owned and controlled by government and are usually autonomously organized with the government providing the initial capital and being responsible for a continuous overview of their activities.

By the above definition we can conclude public enterprises as following features:

- a) Government ownership must be 51 percent or more.
- b) Financing by the government.
- c) Control, direction and management by the government.
- d) Autonomous in daily functioning.
- e) Legally independent entity.
- f) Public accountable and service oriented.

2.3.2 Evolution of Public Enterprises

The First World War made the state realize the value of the policy of protectionism. Therefore, they started intervention in the trade and commerce. Many revolutionary changes like October revolution in Russia emergence of international labor force and

Second World War etc. created an atmospheric favor of protectionism. Post Second World War period and the great depression of the thirties posed a serious challenge to many developing countries for economic development and recovery. The remedy advocated was rapid industrialization, central planning and government intervention in key areas of the economy.

Moreover, it was felt that private sector lacked necessary resources to bear the new responsibility of undertaking the development task. This set the forces leading to the expansion of public enterprises in many countries. The evolution of PEs in the world has taken place in such a way that one can hardly find any government remaining aloof from the industrial enterprises, through the degree of involvement may vary. In deed the very characteristic of the present century has been the acceptance of the role of the state involvement in the economy, no matter how loud the whole world cry for the total role played by the private sector. Even PEs does exist in a country like USA, where the strongholds of private enterprises exist. The USA makes the least use of the PEs. The USA has disbanded most of the PEs that expanded considerably mainly to meet the financial and procurement purposes (Shrestha, 2047: P.37).

Different factors have been remained responsible in different countries for the establishment and increasing role of PEs, which can be classified mainly as:

-) Historical
-) Ideological
-) Pragmatic(economic)
-) Incidental

Private ownership of production should be unconditionally encouraged except in instances where it is necessary to control it to stimulate national development and project the interests of people. More over the idea of keeping key and strategic investment sectors like steel, telecommunication, aircraft, nucleus etc. under the controlling hand of the state for the socio-economic development of the country had also ked to the evolution of PEs in developing country like us. It is believed that Japan was the first to use PE systematically for promotional purpose. Soviet Union also used

it properly for building up its socialist economy in those days. Indian is no exception to it. Public sector did exist in pre independence era too. But its real development process could take shape only after 1947 with the industrial policy 1948 resolution, which called for “the state to play a progressively active role in the development industries.” In fact; it was the socialist orientation of the government, which led to the development of PEs in Sri Lanka owes to the second world war during which period, it was hard hit by supply position of essential commodities that the government to forcefully set up the PEs. The history of PEs in Thailand is associated with the upsurge of Thai nationalism in the 1930s. Mechanized spinning and weaving mills established in 1934, which was the first enterprise in Thailand (Shrestha, 2047: P.14).

Public enterprises represent the single largest economic sector in the world economy. They collectively, employ more people, command a greater asset base and swallow a greater proportion of global GDP than any single area of private sector activity. They still dominate many national economies and remain central in provision of essential services from telecom to drinking water in a majority of countries. They were at the forefront in the process of building an industrial and manufacturing base in the decade of 1950s all over of the world.

In conclusion, public enterprises play the major role in pursuing the industrialization activities in the country. But the important condition in today’s age of science and technology for industrialization is the availability of infrastructure. Such infrastructures mainly consist of communication, transportation and power facilities. In a developing country like Nepal, government has to play a paramount role for building these infrastructures by the help of public enterprises.

2.3.3 Public Enterprises in Nepal

Public Enterprise is a comparative phenomenon in the history of world economy. Public enterprise plays a very important role in most of the developing countries like Nepal. Public enterprises come into existence either by the way of deliberate policy of the government of brings certain activities under strict government control by creating new institution or by nationalizing them from private sector.

Public enterprises in Nepal constitute a vital instrument for the socio-economy development of the country. It 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 goals objectives (Shrestha, 2047: P.26).

Establishment of new enterprises and their role in other developing countries encourage Nepal Government to adopt the path of development through the public enterprises. Especially after the drawn of democracy in 2065 B.S. the government of Nepal has put emphasis on the growth and development of national economy. For this Nepal adopted the “mixed economy model” where both the public and the private sectors were expected to work harmoniously.

Since 2013 B.S., Nepal has witnessed grow and development of PEs. Nepal Government has to play this purpose to make massive investment of create necessary infrastructure and run some of the large manufacturing industries to the people. This has necessitated creation of number of public enterprises of instruments of national development. Nepal Bank Limited, a commercial bank, was established in 2051 B.S., which is the first public enterprise to have a separate legal entity in Nepal.

Nepal started its planned economic development in 2013 B.S. with the launching of the first five year plan. Since then the number of PE has increased substantially in the various fields of national economy.

A trend of rapid expansion of Government financed public enterprises began in Nepal since the decade of 2017 B.S. with primary objective of building basic infrastructure, production and distribution of manufactured goods and assisting in the overall development of the country. Among the existing 36 enterprises fully or partially owned by the Government, there are 7 enterprises in industrial sector, 6 in business sector, 7 in service sector, 3 in public utility sector and 8 are in the financial sector. Since the production and service delivery of these enterprises with Government's heavy investment, are directly concerned with general public, regular monitoring and follow-up is necessary to enhance their efficiency. So, the analyses of regular annual progress reports of these enterprises get incorporated in Economic Survey of every

year. The present analysis includes, target and progress carried out by the public enterprises and the brief financial details of FY 2064/65 as well as objectives and revised cost estimation, and information about the proposed objectives of such enterprises charted out for the coming years. In addition, the capital structure of each enterprise, profit and loss, and situations of Shareholders' fund, liabilities to be paid, details of investment and assets, auditing status, status of human resources, and, current programs as well as future investment programs have been included. The information are collected from the concerned enterprises, Financial Controller General Office and Ministry for Finance, to avail reliable and factual data. 9.2 The total fixed asset of the above said 36 enterprises has reached to Rs.123.85 billion by the end of FY 2064/65 from Rs. 110.61billion in FY 2063/64. During this period, fixed asset of Nepal Electricity Authority, Udaypur Cement Industry Ltd., and Nepal Telecommunications Company grew by Rs.8.41 billion, Rs.2.86 billion, and Rs.1.37 billion respectively.

During the same period however, following the decision made on 29 September 2064, a Kathmandu Valley Drinking Water Management Board was by breaking down Nepal Water Supply Corporation into two separate entities. Since the fixed asset of the company was also transferred with the split, the net fixed asset of Nepal Water Supply Corporation also fell by Rs.2.48 billion. The Shareholders' Fund composed of all public enterprises with full and majority share holding of the Government at the end of FY 2064/65 stood at Rs.46.62 billion. Based on the information from the Financial Comptroller General's Office, the value of the Government's share investment of Rs.81.92billion in 36 PEs has already depleted by 43 percent by the end of FY 2064/65, but the Government's loan investment on PEs, which stood at Rs.71.74 billion in FY 2063/64, grew to Rs.83.31 billion during the same period.

A glance to the overall financial situation of 6 PEs reveals that 17 Corporations have earned net profit, whereas 19 Corporations made losses during FY2064/65. There were only 14 loss-making PEs in FY2063/64 as compared to the present 19, which indicates their deteriorating financial situation. Similarly, the net profit of PEs has decreased to Rs.4.94billion in FY2064/65 against the net profit of Rs.7.74 billion during the same period of FY2063/64. Among the profit- making PEs, Nepal Telecom Company Ltd. has made a net profit of Rs.7.94 billion and Rastriya Banijya Bank

Rs.1.77 billion, contributing to net profit of the PEs. On the contrary, the total loss of Nepal Oil Corporation reached to Rs.5.57billion in FY 2064/65 from Rs.1.92billion during the previous fiscal year. Hence, the overall net profit PEs has decreased. With the price-reduction in petroleum products in the international market during FY 2064/65, and the adjustments in the price yet to be made, it is expected that Nepal Oil Corporation's net profit will reach Rs.5.3 billion, resulting in estimated total profit of Rs.18.42billion of these PEs. Nepal Government received dividend amounting to Rs. 1.513 billion from four PEs in FY 2064/65, equivalent to 1.8 percent of the total share investment.

Sector-wise Analysis

Industry Sector

9.4 In FY 2064/65, seven PEs in the industry sector have made sales transaction worth Rs.4.35billion, an increment of 4.2 percent as compared to the transactions in its immediate preceding fiscal year. Mainly the Dairy Development Corporation, Hetaunda Cement Industry Ltd, Janakpur Cigarette Factory Ltd and Udayapur Cement Industry Ltd have made sales transactions worth Rs.1.80 billion, Rs. .0.99 billion, Rs.0.96 billion and Rs.0.51 billion respectively during FY2064/65. In comparison to the previous year, Hetaunda Cement Industry Ltd, has achieved an encouraging 41.4 percent growth in total sales whereas the total sale of Udayapur Cemet Industry Ltd decreased by 39.1 percent during the same period. There is a moderate growth in the sales of Dairy Development Corporation during this period. Since Nepal Orind and Magnesite has written-off and deducted the sales amount of Rs. 20 million from capital investment while preparing financial report.

Profit and Loss situation

During FY2063/64, the total net loss of 7 PEs under the industry sector was Rs. 272.7 million, which reached to Rs. 435.9 million in 2064/65, almost doubling the loss. Among the prime lose Rs., Udayapur Cement Industry Ltd made a loss of Rs. 266.0 million while Janakpur Cigarette Factory saw a loss of Rs.154.5 million. Udayapur Cement Industry Ltd is losing for reasons like, decline in production, and net sales amidst the high cost of production. The total loss of Nepal Orind Magnesite Private Ltd. has touched Rs.3.58billion with an addition of Rs.86.1 million in the current year

alone. The Dairy Development Corporation, which had made a profit of Rs.14.7 million in FY2063/64 incurred a net loss of Rs.89.8 million in FY2064/65 owing to the allocation in gratuity and increase in other administrative expenses.

Debt, Assets and Share Holders' Fund

There seem to have no particular change occurred in the total outstanding Rs.3.63 billion debt of the industry sector in 2064/65 from that of FY2063/64. Similarly, the net fixed asset of Rs.1.82 billion has grown to Rs. 4.67 billion during the period. Capitalization of Rs. 3.0 billion of Udayapur Cement Industry Ltd, which was being shown as asset under construction for many years in the past, is the main reason for growth in the net fixed asset of the sector. Shareholders' fund includes their share capital, accumulated loss and profit, and reserved funds. By the end of fiscal year 2064/65, the share holders' fund of all 7 PE's has shown negative (-Rs. 1.777billion) balance. Overall, the progress report of the Industrial sector for FY2064/65 does not seem satisfactory. Nepal Orind Magnesite Ltd has made no progress at all, and is continuing to add to the Government's economic burden each year.

Business Sector

In FY2064/65, the total sales transactions of all 6 PEs under the business sector category has reached Rs. 41.7 billion from Rs. 38.78 billion in FY2063/64, registering an increase of 5.9 percent over the previous year.

Among all enterprises under the business sector, Nepal Oil Corporation is the highest contributor with 95 percent of total sales value. Review of FY 2063/64 and 2064/65 shows increase of Rs.2.42 billion in Nepal Oil Corporation's sales transaction. Nevertheless, growth is observed in sales transactions of some other PEs too. However, there has been a heavy decline on the sales of Agriculture Inputs Company limiting to Rs. 161.5 million in FY2064/65 against its sale of Rs. 449.1million in the previous year raising the question of sustainability of the Corporation.

Profit and Loss Situation

All PEs under the business sector incurred a total net loss of Rs.5.69 billion in FY2064/65. This amount is much higher than the previous year's net loss of Rs.1.96 billion caused to the business sector mainly due to sharp rise of 190 percent loss to Nepal Oil Corporation during the period. Among the Corporations of this sector, National Seeds Company and Nepal Food Corporation are in the situation of registering net profits owing to the grant assistance from the Government of Nepal to them worth Rs.5.0 million and 38.95 million respectively. National Trading Limited and The Timber Corporation of Nepal have also registered profits this year. The Agriculture Inputs Company registered the loss worth Rs.164.2 million in FY2064/65. Because of Nepal Oil Corporation's net loss worth Rs.5.57 billion, the overall financial situation of business sector has incurred the net loss.

Debt, Assets and Shareholders' Fund

By mid-July 2064, the long-term and short-term debt of PEs have reached Rs.10.77 billion and Rs.3.36 billion respectively. Nepal Oil Corporation's long-term and short-term debt has reached Rs.10.71 billion and Rs.2.40 billion respectively, In addition, the Corporation owes Rs. 1.24 billion dues to Indian Oil Corporation. Because, the increasing trend of debt and dues Nepal Oil Corporation owes, the overall debt of the business sector is also on increase. In comparison to FY2063/64, the short-term debt of Agriculture Inputs Company in FY2064/65 declined by 22.0 percent to Rs.722.0 million. Besides, the debt obligation of Nepal Food Corporation also came down to Rs. 173.2 million from 408.9 million. The net fixed asset of the business sector is worth Rs. 1.83 billion, major shares of which Agriculture Inputs Company and Nepal Oil Corporation own worth Rs. 790.0 million and Rs. 490.0 million respectively. In the FY2064/65, no substantial change is noticed in the fixed asset in the PE's of the business sector. Although, the Shareholders' fund as a whole is negative, Shareholders' fund of four Corporations of this sector namely Agriculture Inputs Company, National Seeds Company Ltd, The Timber Corporation of Nepal and National Trading Limited has remained positive.

Service Sector

The total operating income of 7 PE's under the service sector decreased by 22 percent to Rs.5.50 billion in FY2064/65 in comparison to previous year's income with contributions of net operating incomes of Rs. 3.31 billion and Rs. 1.50 billion of Nepal Airline Corporation and Civil Aviation Authority respectively. As compared to FY2063/64, Civil Aviation Authority and Industrial Estates Management Company have expanded their transactions. However, Nepal Airlines Corporation's total income fell to Rs.3.31 billion in contrast to the income of Rs.5.21 billion during the previous year. Among those PEs whose operating income has declined are Nepal Engineering Consultancy Services Centre Ltd, and National Construction Company of Nepal, whereas National Productivity and Economic Development Centre and Nepal Transit and Warehousing Management Company's operating income have increased.

Profit and Loss Situation

The net profit of all PEs under the service sector fell sharply by 55 percent in FY2064/65 to Rs.215.3 million from Rs.475.5 million in its immediate preceding year. Three Public Enterprises that were able to make net profits were the Civil Aviation Authority, Industrial Estate Management Company, and Nepal Transit and Warehousing Management Ltd with the shares of Rs. 412.7 million, Rs. 19.5 million and 8.5 million respectively during the period. Nepal Airlines Corporation which earned a net profit of Rs. 342.1 million in FY2063/64 made a net loss of Rs. 197.1 million in FY2064/65 owed mainly to higher administrative expenses without any increase in service transactions. Likewise, National Construction Company Nepal Ltd, Nepal Engineering Consultancy Services Centre and National Productivity and Economic Development Centre have been operating at losses.

Debt, Assets and Shareholders' Fund

Among PEs in the service sector, only Nepal Airlines Corporation and Civil Aviation Authority are using loans. Overall, the service sector owed Rs.1.80 billion long-term and Rs. 369.3 million short-term debts by FY2064/65. Similarly, the sector's Shareholders' Fund and net fixed assets in this period stood at Rs.9.74 billion and Rs.10.31 billion respectively. The Civil Aviation Authority of Nepal has added Rs. 4.0 billion to its assets through capitalization.

Social Sector

The total operating income of 5 PEs in the social sector amounted to Rs. 1.16 billion in FY2064/65, which is more by Rs. 153.3 million than that of its preceding year. During the period, Janak Education Materials Centre made the most sales transactions worth Rs. 680 million, Nepal Television worth Rs.230 million, and Gorkhapatra Corporation worth Rs.220 million. Social sector PEs recorded increase in their overall transactions in FY2064/65 as compared to FY2063/64.

Profit and Loss Situation

There has been a slight improvement in the situation of net loss in the social sector from Rs.128.5 million in FY2063/64 to Rs.124.9 million in FY2064/65. Gorkhapatra Corporation and Janak Educational Materials Centre Ltd, that were making profit in FY2063/64, incurred losses in FY2064/65. During the review period, Nepal Television, Janak Educational Materials Centre, Gorkhapatra Corporation, Grameen Aawas Company Ltd., and the Cultural Corporation all incurred losses worth Rs. 75.1 million, Rs. 31 million, Rs. 11.8 million, Rs. 6.6 million and Rs. 0.4 million respectively. The magnitude of loss of Nepal Television and Grameen Aawas Company Ltd, however has decreased to some extent in FY2064/65 than in the previous fiscal year. In considerations with the progress made during FY2064/65, the net loss of the sector in FY2065/66 is estimated at Rs. 88.4 million.

Debt, Assets and Shareholders' Fund

Among the PEs in the social Sector, only two Corporations, i.e. the Cultural Corporation and Gorkhapatra Corporation have long term debt obligations worth Rs. 184.3 million and 24.6 million respectively. The long-term debt obligation of the Cultural Corporation was Rs. 102 million in 2061/62, Rs. 127.3 million in FY2062/06; Rs. 162.3 million in 2063/64, and Rs.184.3 million in 2064/65 showing the gradually increasing trend. The Gorkhapatra Corporation, which had a debt obligation of Rs.25.1 million in nFY2063/64, has been able to bring it down slightly. The net fixed asset of the social sector Corporations, which amounted to Rs. 1.6 billion in FY2063/64 stood at Rs. 1.4 billion by the end of FY2064/65. In the current

fiscal year, the Cultural Corporation has notably increased its fixed asset. The Shareholders' fund of this sector amounted to Rs. 1.49 billion by the end of the current fiscal year, which stood at Rs.1.68 billion in FY2063/64. None of Corporation in this sector has the Shareholders' fund negative. To sum up, despite satisfactory sales situation of PEs in this sector, there has been no improvement in their loss-making positions.

Public Utility Sector

The total operating income of the PEs under the Public Utility Sector has stood at Rs.32.21 billion in FY2064/65. This is an increase 12.35 percent when compared with the operating income in FY2063/64. Because a separate Kathmandu Valley Drinking Water Management Board has been formed for managing water supply in Kathmandu Valley, the scope of Nepal Water Supply Corporation has shrunk to the areas outside the Valley resulting in the decline of total operating income worth Rs. 241.7 million in FY2064/65. To the contrary, the operating income of the Nepal Electricity Authority grew by 4 percent reaching Rs.15.18 billion. Similarly, the operating net income of Nepal Telecom Company Ltd increased by 24.8 percent and reached Rs.16.79 billion from Rs.13.45 billion in FY2063/64.

Profit and Loss Situation

During FY2063/64 the profit of PEs in this sector was Rs.5.57 billion, which increased to Rs.7.2 billion in 64/65 with a growth of 26 percent. During FY2064/65 Nepal Telecom Ltd singly made a net profit of Rs.7.94 billion, largely contributing to lead the whole profit-making utility sector. Nepal Electricity Authority and Nepal Water Supply Corporation have borne a loss of Rs.909.3 million and Rs.16.7 million respectively. The net profit of Nepal Telecom Company is expected to reach Rs. 10.14 billion by the end of FY2065/66.

Debt, Assets and Shareholders' Fund

By the end of the FY2064/65, the long-term debt liabilities of Nepal Water Supply Corporation and Nepal Electricity Authority reached Rs. 449.6 million and Rs.51.63 billion respectively. The major investment of this sector is on fixed assets. By adding

the construction in process, net fixed assets of these PEs totalled Rs.105.56 billion in FY2064/65 from worth Rs.98.25 billion in FY2063/64.

Financial Sector

The total operating income of 8 PEs under the financial sector has increased by 8 percent to Rs.10.93 billion in FY2064/65, while compared to the income of FY2063/64. During this period, Nepal Industrial Development Corporation substantially increased its income by selling Nepal Arab Bank's 265,570 units of shares it owned raising its operating income to Rs.1.13 billion. Similarly, Rastriya Banijya Bank has increased its operating income to Rs.3.30 billion from Rs.2.83 billion in FY2063/64. However, there has been a decline in the total operating incomes of Agriculture Development Bank and Credit and Investment Guarantee Corporation Ltd. The remaining PEs has slightly increased their operating incomes. Since there has been an overall increase of Rs.81.26 million in the total operating income, the financial situation of the PEs of this sector is positive. Meanwhile, Agriculture Development Bank has been permitted to operate its services as of Category A (ka) bank from Nepal Rastra Bank since FY 2062/6, it has expanded its various banking activities accordingly.

Profit and Loss Situation

The net profit of the financial sector has decreased by 2.4 percent to Rs.3.96 billion in FY2064/65 against Rs. 4.6 billion that of FY2063/64. The net profit of Rastriya Banijya Bank, Nepal Industrial Development Corporation and Nepal Stock Exchange in FY2064/65 increased to be 1.76 billion, 8.8 million, 742.4 million, and 79.1 million Rupees respectively. On the contrary, the profit of Agricultural Development Bank and Rastriya Beema Sansthan has decreased. Savings and Credit Guarantee Corporation Ltd., which earned profit of Rs.100.1 million in 2063/64 is now at a loss worth Rs. 28.5 million in the current fiscal year. There is no worth-mentioning improvement in the profit of Citizen Investment Trust and Nepal Housing Development and Finance Company.

Debt, Deposit Investment and Share Holders' Fund

The long-term debt of PEs in this sector amounted to Rs.8.33 billion by the end of FY2064/65. Nepal Industrial Development Corporation has debt liability of Rs.232.0 million, Rastriya Banijya Bank Rs.2.517 billion, and Agriculture Development Bank Rs.257.4 million. The Life Insurance Fund liability of Rastriya Beema Sansthan amounting to Rs.7.15 billion has also been included in the debt obligations. Among the 3 PEs under the financial sector, Agricultural Development Bank, Rastriya Banijya Bank and Nepal Housing Development and Finance Company have conducting their business by accepting deposits from the general public. Similarly, Nepal Industrial Development Corporation also has received approval to operate general banking services. The accumulated deposits of such PEs in FY2064/65 totalled to Rs.93.94 billion, which is much higher than the previous fiscal year's Rs.83.55 billion registering an increase of 12.43 percent. On credit expansion, there has been a marginal increase of Rs.53.83 billion by the end of FY2064/65 against Rs.52.38 billion in the previous fiscal year. Likewise, the net credit flow of these PEs marginally increased from Rs.52.38 billion in FY2063/64 to Rs. 53.83 billion by the end of FY2064/65. Overall, financial institutions' aggregate Shareholder' fund remained negative by Rs.7.95 billion. It is due to that fact that although, Shareholders' Fund of PEs other than that of Rastriya Banijya Bank has been positive, this particular Bank's Rs.15.46 billion fund in negative has affected by turning the whole PEs' Shareholders' fund negative in aggregate. The negative asset of Rastriya Banijya Bank has been gradually coming down after the Bank was brought in operation on the Management Contract under the Banking Sector Reform Program with the World Bank Assistance in 2060. The negative asset of the Bank that stood at Rs.22.39 billion in FY2058/59 has come down to Rs.15.46 billion by the end of FY 2064/65.

Status of Auditing

Despite the legal provision to conduct annual audit of all PEs, in practice however, some PEs are still found to ignore their responsibility of getting their accounts audited within the stipulated time-frame. To state more precisely, only 19 PEs have completed audit of accounts up to FY2064/65, whereas 9 PEs have made it up to FY2063/64. and 3 PEs have completed their audit only up to FY2062/06. Though some

improvements is observed among the PEs to comply with auditing and accounting requirements of the law, the task of auditing could not get completed as expected neither in terms of time nor in the manner, proving their incapability and lack of accountability. The following table presents the poor performances of some of the PEs failing towards fulfilling their legal responsibilities for annual auditing:

Table No. 2.2
Public Enterprises with Weak Audit Status

| S.N | Name of public enterprise | Latest Audit Year |
|-----|--|-------------------|
| 1 | Nepal Orind Magnesite Pvt. Ltd. | 2058/59 |
| 2 | Rastriya Beema Sansthan | 2058/59 |
| 3 | Udayapur Cement Industry Ltd | 2061/62 |
| 4 | Gorkhapatra Corpotation | 2061/62 |
| 5 | Nepal Industrial Development Corporation | 2061/62 |

(Sources: Ministry of finance, www.mof.gov.np)

Reform in Corporations' Board of Directors

The Government has endorsed a policy of appointing competent, enterprising and professional individuals to represent the Board of the PEs limiting their size to 5 members. So far, these policy provisions have been actualized in almost all PEs. However, the number of Board of Directors of some PEs are specified by the concerned Acts and Regulations and limiting their size to 5 members in such PEs through reframing those Acts and Regulations is yet to be made. Names of such PEs are mentioned below:

Table No.2.3
Number of Board Directors in some Public Corporations

| S.N | Name of public enterprise | No. of director |
|-----|--|-----------------|
| 1 | Nepal Oil Corporation Ltd. | 8 |
| 2 | Civil Aviation Authority | 8 |
| 3 | Nepal Housing Development Finance Company Ltd. | 8 |
| 4 | Nepal Water Supply Corporation | 7 |

| | | |
|----|--|---|
| 5 | Nepal Electricity Authority | 7 |
| 6 | Nepal Airlines Corporation | 7 |
| 7 | Ratriya Beema Sansthan | 7 |
| 8 | Udaipur Cement Industry Ltd. | 6 |
| 9 | Nepal Food Corporation | 6 |
| 10 | Saving and Credit Guarantee Corporation Ltd. | 6 |
| 11 | Nepal Stock Exchange Ltd. | 6 |
| 12 | Gorkhapatra Corporation | 6 |
| 13 | Grameen Aawas Co. Ltd. | 6 |

(Sources: Ministry of finance, www.mof.gov.np)

The Government of Nepal's Share and Loan Investments

According to the Financial Comptroller General's Office (FCGO), the Government's share investment in 36 PEs totals to Rs. 81.92 billion, from which the Government has earned a net dividend of Rs.1.51 billion by the end of FY2064/65. Likewise, the loan investments owed to the Government amounts to Rs.73.819 billion by the end of FY2064/65. Of this, domestic and external loans comprise of Rs. 13.001 billion and Rs. 60.69 billion respectively. Despite discrepancies in accounts as submitted by the concerned PEs and that was prepared by the FCGO in the progress report of FY2063/64, no progress was made towards addressing the issue even in FY2064/65. The progress reports and details about the share and investment of a number of PEs still need to tally and get audited accordingly. Failing to do this for a long period will certainly have a negative impact, not only the auditing will become more and more complex, but also the real picture of the financial conditions of the PEs can be known. Therefore, an initiation to finalize auditing is unavoidably essential. The differences in details noticed on Government's loan investment are presented below:

Table No. 2.4

Discrepancies in Accounting of Government Lending to Public Enterprises

(In Million Rs.)

| S.N | Name of public enterprise | As shown by the PEs (1) | As shown by FCGO (2) | Difference (3=1-2) |
|-----|---------------------------|----------------------------|-------------------------|-----------------------|
| 1 | Nepal Drugs Ltd. | 122.0 | 108.5 | 13.5 |

| | | | | |
|----|---|---------|---------|---------|
| 2 | Udaipur Cement Industry Ltd. | 174.0 | 2225.0 | -485.5 |
| 3 | Nepal Orind Magnesite Pvt. Ltd. | 349.3 | 357.0 | -7.7 |
| 4 | Nepal Food Coporation | - | 4.2 | -4.2 |
| 5 | The Timber Corporation of Nepal | 54.8 | 57.8 | -3 |
| 6 | National Construction Co. Nepal Ltd. | - | 1.0 | -1 |
| 7 | Civil Aviation Authority | 1022.0 | 2387.8 | -1305.8 |
| 8 | Nepal Water Supply Corporation | 449.6 | 3748.5 | -3298.9 |
| 9 | Nepal Electricity Authority | 51635.7 | 56615.9 | -2980.2 |
| 10 | Nepal Telecom Ltd. | - | 104.3 | -104.3 |
| 11 | Agricultural Development Bank Ltd. | - | 410.8 | -401.8 |
| 12 | Nepal Industrial Development Corporation Ltd. | - | 6.5 | -6.5 |
| | | 55373.4 | 63958.3 | -8584.9 |

(Sources: Ministry of finance, www.mof.gov.np)

Status of Employees/ Workers

The number of employees in 36 PEs with Government's full/ majority ownership was 34,170 by the end of FY2064/65, which is estimated to reach 36,457 in FY2065/66 and 37,450 by FY2066/10. In general, Corporations have a common pressure of over-staffing, but the production and delivery of goods and services of these Corporations have not improved in comparison to the number of staff, workers, and productivity of their counterparts with similar nature in the private sector. With this situation, the overhead cost and financial burden has continued to increase whereas productivity of workers has decreased - ultimately leading to the decreased productivity of the entire sector. Enjoying the privilege of Government protection, most employees/workers lack motivation to become competitive, instead, they are getting more and more facility seekers. This PEs is undergoing the problem of decision-making in absence of any improvement on professional autonomy. Despite these shortcomings, some PEs is effectively carrying out their duties of production and delivery of goods and services.

Unfunded Liabilities

Most PEs have not covered various payment liabilities such as gratuity, payments against accrued leave, etc. in their fund which gets more burdensome for unanticipated potential obligations. By the end of FY 2064/65, such unfunded liability totaled to Rs.4.96 billion, whereas the potential liability has reached Rs.16.36 billion. The unfunded liabilities of PEs and existing potential liabilities are as follows:

Table No. 2.5
Unfunded Potential Liabilities of Public Enterprises

(In Million Rs.)

| S.N | Name of public enterprise | Unfunded | Potential | Total |
|-----|--|----------|-----------|--------|
| 1. | Dairy Development Corporation | 281.4 | 0 | 281.4 |
| 2 | Herbal Production and Processing Center Ltd. | 120.8 | 1.5 | 122.3 |
| 3 | Hetauda Cement Industry Ltd. | 0 | 0 | 0 |
| 4 | Janakpur Cigarette Factory Ltd. | 649.9 | 0 | 649.9 |
| 5 | Nepal Drugs Ltd. | 88.1 | 0 | 88.1 |
| 6 | Udaipur Cement Industry Ltd. | 700 | 0 | 700 |
| 7 | Nepal Orind Mannesite Pvt. Ltd. | 3200 | 0 | 3200 |
| 8 | Agricultural Inputs Co. Ltd. | 164.7 | 1.5 | 166.2 |
| 9 | Nepal Seeds Company Ltd. | 0 | 0 | 0 |
| 10 | National Trading Ltd. | 103.8 | 370.3 | 474.1 |
| 11 | Nepal Food Corporation | 296 | 0 | 296 |
| 12 | Nepal Oil Corporation Ltd. | 0 | 0 | 0 |
| 13 | The Timber Corporation of Nepal Ltd. | 73.435 | 0 | 73.435 |
| 14 | Industrial Estates Management Ltd. | 13.2 | 0 | 13.2 |
| 15 | Nepal Construction Company Nepal Ltd. | 20 | 0 | 20 |
| 16 | Nepal Transit & Warehousing Co. Ltd | 12.8 | 0 | 12.8 |
| 17 | Nepal Engineering Consultancy Services Pvt. Ltd. | 0 | 0 | 0 |
| 18 | Nepal Airlines Corporation | 34712 | 0 | 34712 |
| 19 | National Productivity and Economic Development Centre Ltd. | 0 | 0 | 0 |
| 20 | Civil Aviation Authority | 949.62 | 0 | 949.62 |
| 21 | Cultural Corporation | 7.7 | 0 | 7.7 |
| 22 | Gorkhapatra Corporation | 0 | 0 | 0 |
| 23 | Janak Educational Materials Ltd. | 107 | 3.5 | 116.5 |
| 24 | Nepal Television | 84.2 | 0 | 84.2 |

| | | | | |
|----|---|--------|---------|---------|
| 25 | Grameen Aawas Company Ltd. | 901.6 | 0 | 901.6 |
| 26 | Nepal Water Supply Corporation | 234.5 | 0 | 234.5 |
| 27 | Nepal Electricity Authority | 315.1 | 10210.4 | 10525.5 |
| 28 | Nepal Telecom Ltd. | 1637 | 3.2 | 1640.2 |
| 29 | Agricultural Development Ltd. | 0 | 2198.1 | 2198.1 |
| 30 | Rastriya Beema Sansthan | 0 | 0 | 0 |
| 31 | Nepal Industrial Development Corporation | 0 | 0 | 0 |
| 32 | Rastriya Banijya Bank Ltd. | 2619.7 | 0 | 2619.7 |
| 33 | Saving and Credit Gurantee Corporation Ltd. | 0 | 0 | 0 |
| 34 | Nepal Housing Development & Finance Co. | 0 | 0 | 0 |
| 35 | Nepal Stock Exchange Ltd. | 0 | 0 | 0 |
| 36 | Citizens Investment Trust | 0 | 0 | 0 |
| | Total | 4955.8 | 16363.8 | 21319.6 |

(Sources: Ministry of finance, www.mof.gov.np)

Privatization, Liquidation and Termination of PEs

The Government initiated the process of privatization, liquidation and termination of PEs in 2050 with the objectives of raising the private sector's productivity through their skills enhancements, ease the Government's financial and administrative burden, increase the private sector participation, and ensure effective and efficient delivery of goods and services. Since then and between 2065/66, the Government has divested 60 PEs through adoption of various modalities including the sale of businesses assets, partial disinvestment of shares, sale of current assets, leasing of buildings and land, management contract, liquidation, and termination, etc. The details of such disinvestments are presented below:

Table No. 2.6
Disinvested and Liquidated Public Enterprises

| S.N | Name of Enterprise | Year of disinvestment or Liquidation (A.D) | Privatization Process | Shares Disposed (Percent) | Amount received through Disinvestment (Million in Rs) |
|-----|--------------------|--|-----------------------|---------------------------|---|
|-----|--------------------|--|-----------------------|---------------------------|---|

| | | | | | |
|----|--|------|--------------------------|-----|--------|
| 1 | Bhrikuti Paper Factory | 2049 | Business and Assets/sale | - | 229.80 |
| 2 | Harisiddhi Brick and Title Factory | 2049 | Business and Assets/sale | - | 214.83 |
| 3 | Bansbari Leather Shoes Factory | 2049 | Business and Assets/sale | - | 29.85 |
| 4 | Motion Picture Development Company | 2050 | Shares Disinvestment | 51 | 64.66 |
| 5 | Balaju Textile Industry | 2050 | Shares Disinvestment | 70 | 17.72 |
| 6 | Raw Hide Collection and Sales Center | 2050 | Shares Disinvestment | 100 | 4.00 |
| 7 | Nepal Bitumument and Barrle Industry | 2051 | Shares Disinvestment | 65 | 13.13 |
| 8 | Nepal Lube Oil | 2051 | Shares Disinvestment | 40 | 31.06 |
| 9 | Nepal Jute Development and Trading Company | 2050 | Liquidation | - | - |
| 10 | Tobacco Development Co. | 2051 | Liquidation | - | - |
| 11 | Nepal Metal Company | 2053 | Shares Disinvestment | 51 | 14.47 |
| 12 | Raghupati Jute Mills | 2053 | Shares Disinvestment | 65 | 82.20 |
| 13 | Nepal Metal Company | 2054 | Shares Disinvestment | 10 | 125.14 |
| 14 | Agricultural Project Services Center | 2058 | Liquidation | - | - |
| 15 | Nepal Tea Development Corporation | 2057 | Shares Disinvestment | 65 | 267.11 |
| 16 | Biratnagar Jute Mills | 2059 | Management Contract | - | - |
| 17 | Himal Cement Industry Ltd. | 2059 | Liquidation | - | - |
| 18 | Cottage Handicraft Sales Emporium | 2059 | Liquidation | - | - |
| 19 | Nepal Coal Ltd. | 2059 | Liquidation | - | - |
| 20 | Hetauda Textile Industry | 2059 | Liquidation | - | - |

| | | | | | |
|----|---|------|---------------------------|------|---|
| 21 | Nepal Transport Coporation | 2059 | Dissolve | - | - |
| 22 | Butwal Power Company | 2060 | Shares Disinvestment | 75 | Rs. 874.2 million and US 1 million |
| 23 | Birgunj Sugar Factory Ltd. | 2060 | Liquidation | - | - |
| 24 | Agricultural Tools Factory Ltd. | 2060 | Liquidation | - | - |
| 25 | Bhaktapur Brick Factory | 2061 | Asset Sale and Leasing | - | Rs. 14.50 million from assets sale, and Rs. 31.90 million as rent for 10 years |
| 26 | Lumbini Sugar Factory | 2063 | Asset Sale and Leasing | - | Rs. 78.60 million from asset sale and Rs. 4.20 annual rents |
| 27 | Nepal Rosin & Turpentine Ltd | 2063 | Asset Sale and Leasing | - | Rs.110.10 million from asset sale and Rs.3.01 million and annual rent |
| 28 | Agricultural Lime Industry | 2063 | Liquidation | - | - |
| 29 | Nepal Drilling Company | 2063 | Liquidation | - | - |
| 30 | Nepal Tele Communication Company Limited | 2065 | Shares Disinvestment | 8.53 | Rs.4264.14 million |

(Source: Ministry of Finance)

* Though given in management contract, the Government is currently operating upon failure to run as per the contract. .

** Liqutation void through the Court decree, due process restarted for re-liquidation.

Monitoring has not been carried out since privatization of PEs. Some PEs are closed after privatization, and employment opportunities have been curtailed due to failure on enhancing investments, production, and productivity of even those in operation. Meanwhile, the Task Force formed to explore the exact situation and key problems of the privatized PEs has submitted its report with issues and recommendations. No

process for privatization has moved ahead in FY2065/66. Among the privatized PEs, the liquidation process of Bhaktapur Brick Factory is completed and the company has been dissolved by the Company Registrar's Office. Liquidation process of Agricultural Lime Industry has reached its final phase. Experiences gained through privatization initiated 15 years ago have revealed a number of challenges in the implementation of privatization process.

2.4 Review of Related Studies

2.4.1 Review of Books and Articles

There is no long history of corporate tax in Nepal, since 2017 B.S. corporate tax was started in Nepal. Several books, dissertations, research papers, reports and articles published in journals and newspapers are reviewed while preparing this thesis. Most of the books are found to be descriptive rather than analytical. Many books, in this field are written to fulfill the course requirements of Tribhuvan University. An attempt i.e. made have to review some of books, thesis, research papers, reports and articles which have been written in the field of corporate tax in Nepal. Many dissertation, books, articles and newspapers reviewed while preparing this thesis. Many books in this field are written to fulfill the course requirement of the Tribhuvan University. An attempt is made here to review some of the books, thesis, articles and reports, which have been written in the field of income tax in Nepal.

Agrawal (2035 B.S.) presented the research report entitled “resource Mobilization for Development: The reform of income tax in Nepal” which was published by the CEDA Katmandu in July 2034 B.S. This research work was the first comprehensive study on the income tax in Nepal. In the research work, he analyzed various aspect of income tax system of Nepal such as role of income tax and administration in Nepal. In this report he showed the cause of problems facing by tax authorities in the tax administration. As per his study , the main cause of administrative problems are undue delay in tax assessment, failure to maintain proper account by tax payers, failure to maintain proper records by tax offices, failure to locate new taxpayers,

unfriendly behavior of tax officials to the tax payers, assessment under the best judgment etc. He also showed the main reasons of assessment delays. As mentioned by him delays in filing of returns of income, delays in settlement of appeals , defective assessment procedure, lack of proper taxpayer information and failure to maintain the proper accounts and records by taxpayers/tax offices. He also found the buoyancy of income tax with respect to GDP for the period 2024/25 B.S. to 2032/33 B.S. and elasticity of income tax. He also showed that about 2.18 buoyancy and 2.01 elasticity of income.

Poudyal (2050) wrote a book entitled “Income tax law and practice” Poudyal 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. Poudyal has described the most of the related terms in the respect with the assessment of different income tax. Mr. Poudyal has also described the meaning of tax, basic feature of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of tax payer, 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 payers have also been described in this book.

Tiwari (2050) has explained legal provision regarding income tax system in Nepal. He described the process, provision and methods to assess income tax with numerical examples. His book is based on T.U. syllabus. He had not shown the role of income tax in economic development and problem of income tax system.

Pradhananga (2050) had explained the provisions 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 role of income tax.

Khadka (2051) had shown VAT as a long term tax for Nepal. Income tax and composition tax revenue from 2007/08 B.S. to 2048/49 B.S. 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. His identification of major problems was weak tax administration, imbalance and

inadequate organizational pattern, lack of adequate information system. Although he had not mentioned the legal provision of income tax his book is very useful in various aspects of income tax.

Aryal and Poudyal (2060) wrote a book entitled “Taxation in Nepal”. This book is based on the on ITA 2059. This book is divided in three parts. It had described about the tax features of ITA 2058, capital receipt or revenue receipt, special provision for entities and retirement saving, classification of tax payers 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 deal with numerical illustration. This book is useful for academic purpose and practical point of view.

Kandel(2058) has criticized the Income Tax Act 2059 on several grounds. Exemptions of agricultural income tax, export duties levied on export, inequality between different capital earned income i.e. tax on interest, divided and capital gain with drawl of the provision of exemption. Suddenly and no adjustment for infection are the major issues he raised in his article he also said that tax regime creates more burden than the former one.

Dhakal (2058) had presented his enlarged and modified edition of his book including VAT. This book was presented by TU syllabus of BBS and MBS. He had described the legal provision relating to income tax with numetical 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.

Adhikari (2060) wrote a book entitled “Modern taxation in Nepal”. Dr. Adhikari had described the provisions and laws related to taxation of Nepal according to new ITA 2059. 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 the writer has described about heads and sources of incomes, empolyment or remuneration income tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been describes about property tax, house and land tax, wind gall gain

tax and other provisions have been described in fifth chapter. This book is written for students of TU especially for BBS, MBS, MPA students. However, it is useful to tax payer, tax administrators and others.

Bhattaria and Koirala (2061) 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.

Kandel (2060) wrote a book “Tax Law and Tax Planning” which is based on government regulation and therefore is a very timely work and extremely helpful for students of Master and Bachelor of Business Studies. This second edition had 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.

Amatya, Pokhrel and Dahal (2061) have written a book entitled “Taxation in Nepal”. Amatya, Pokhrel, and Dahal have described about income tax and its development in Nepal. They have also discussed about tax accounting, quantification, allocation and characterization of amount, exemption, concessions, facilities, and tax rates, expenditure expressly disallowed for deduction, capital or revenue income, and expenditures, of tax payers, special provision for natural person and entity, income heads and sources, income from employment, income from business, set-off long back and carry forward of losses, income from investment, net gain from disposal of assets, and liabilities, and capital gain taxation, form of documentation, PAN and maintenance of documents, income return and tax assessment payment, collection and refund of tax, tax administration , rights and duties of tax payers etc. this book has been written to fulfill the course requirement of Tribhuvan University. It is based on the syllabus of Bachelor level of management, law and CA and also for master level of management and law. This book is informative rather than analytical. They have also included numerical problems in regard to income tax assessment but failed to analyze the importance of income tax problem and defects in Nepalese income tax system.

Above studies shows that Income Tax is the main source of government revenue. It is useful to balance economic development. Nobody can doubt that, the equal distribution of income is possible through progressive income tax system. Nepal has adopted the income tax system for the last four decades. But the past experiences show that the government is unable to maximize the share of income tax to public fund as per expectation. Merchant banks play a vital role in economic and financial development of the country as they are profit oriented entities so they must pay income tax out of their net profits.

2.4.2 Review of Previous Thesis

Pradhan (2058) wrote a thesis entitles “Contribution of income tax from public enterprise to public revenue of Nepal, with reference to Nepal Telecommunication Corporation.” Miss Pradhan conducted this study with objectives, i)To analyze the contribution of income tax from public enterprise to government revenue of Nepal. ii)To examine the effectiveness of income tax revenue collection from public enterprise.iii)To show the contribution of income tax from NTC to total tax and total income tax of Nepal. The time period covered by this study was ten years from fiscal year 2046/47 to 2055/56. The data and other necessary information were collected by using primary as well as secondary sources of data. Miss Pradhan, in this study has found that income tax was a suitable source of mobilizing internal sources. Contribution of tax from public enterprise in Nepal was not significant during the study period due to poor achievement, weakness in government economic policy and deficiency in legislation. She also found that PEs share has covered more than 50 percent corporate tax. In the earlier stages, PEs contributed almost total share of corporate income tax. In fiscal year 2046/47, the share of income taxes from PEs was 99 percent. But its share decreased to 58 percent in the fiscal year 2055/56.

Miss Pradhan also found that NTC showed 44 percent share of total income tax revenue from PEs which was 84 percent in 2050/51. Expect in the fiscal year 2048/49 and 2053/54, the collection of income tax from NTC has been increasing gradually during the study period.

Pandey (2061) had conducted a research in entitles “Corporate tax planning in Nepal.” Mr. Panday conducted this study with objectives i) To identify the major

problems and weakness for corporate tax planning in Nepal. ii) To indentify the major facilities and benefits provided by income tax act 2058 for the corporate bodies. iii) To focus on the advantages of tax planning for the both government and corporate taxpayers. iv) To make relevant suggestions and to generate practical ideas of modern income tax burden of corporate taxpayers. v) To encourage reducing tax burden of corporate taxpayers by tax planning rather than tax evasion a tax avoids practices. The area covered by this study was remote, undeveloped, under developed and developed area. His was focusing the facilities provided by tax law and tax rate in different area. For this purpose he used primary as well as secondary data. During t6he study period he found that the process of reducing tax liability by the optimum use of facilities provided by the government is suitable. Most of the countries prefer books profit as the tax base as it is superior an stronger base than other tax basis. Government of Nepal has also followed book profit as tax basis for the purpose of computing corporate income tax.

Acharya (2051) wrote a thesis entitles “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: i) To reduced inequality of income distribution. ii) To collect more government revenue. iii) To check infection. 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.

Kandel (2057) also presented the 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 have blocked the development of private investments. The main objectives of the study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden. He has shown the relationship of private investments with average effective tax rate. (AETR), marginal effective tax rate (METR) and tax incentive in Nepal. He has found that the METR for debt –financed project are almost negative (i.e. -1.7percent) and positive for equity financed project and debt equity ratio project by 27percent and 19percent

.respectively. He has also found that the impact of inflation to the METR. According to him the statutory tax rate deduction had impact private investments by 60percent to 20percent. In this regard he has shown the adjusted R² value 0.87 at 5percent level of significance. He has concluded that the statutory tax rate was in modern level under all financial options: debt, mix and equity i.e. it was not much distort.

2.5 Research Gap

There is the gap between this research and previous researches. Most of the previous research studies were based on laws, provisions, administrative aspect and structure of tax. Most of them have indicated the inefficiency of tax administration. But majority were based on theoretical facts of tax administration. They have not reasonably shown the inefficiency of tax administration. They have identified the problem of income tax evasion at high level and suggested for its control. The major problem of income tax system of Nepal is the absence of efficient and effective tax administration. If there is efficient and effective tax administration, the problem of income tax evasion will solve automatically,

Public enterprises are the backbone of the economy. Contribution of tax from PEs plays vital role in the economy of poor country like Nepal. Most of the previous researcher did not study about contribution of tax from PEs, Research and Development, planning on PEs and structure on corporate tax accumulated on PEs, Public Ltd. Company and Private Ltd. Company.

Thus, to fill the gap, this research has been conducted. It is based on primary as well as secondary sources of data. Income tax administration, being a major component of income tax system, has been studied analytically in this study.

Besides these, contribution of tax from PEs to tax revenue has also been studied analytically. Likewise, problems of revenue collection from tax have also been studied analytically.

CHAPTER-3

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate specific problems. This process of investigation involves a series of activities of gathering, recording, analyzing and interpreting the data with purpose of finding answers to the problem.

The research has two important aspects. First, it is sufficient broad requiring solvating to a problem. Secondly, it explicitly recognizes the systematic research process in which data are gathered, recorded, and interpreted in an orderly manner.

Thus, research methodology is the process of bringing to the solution of problems through planning and systematic dealing with the collection, analysis and interpretation of the facts and figures. It reports to the various sequential steps to be adopted by a researcher, who is starting with a problem containing an object in a view. The objective of the study is to analyze the tax planning and to analyze the contribution of income tax from Nepal telecom to government revenue.

The study includes three types of research as descriptive, analytical and empirical.

-) A descriptive research includes the survey and fact finding in various of different kinds. The major purpose of descriptive research is the description of the state of affairs as it exists at present.
-) An analytical research has to use factors of information already available and analyze these to make the critical evaluation of the material.
-) An empirical research relies on observation alone often without due regard for system and theory. It is a data based research coming up with a conclusion which is capable of being verified by observation.

3.2 Research Design

The research topic entitled "A comparative study on contributing of direct tax and indirect tax to National revenue of Nepal" is abstracted from the socio-economic environments of Nepal. As the income tax system and structure is based on various rule regulations and acts which are always setting an example for other countries own socioeconomic structures, descriptive research design is more suitable to analyze Nepalese corporate tax structure for contribution of corporate income tax, the study needs to analyze its past performance in different time periods with respective indirect. So, historical as well as descriptive research design is used.

3.3 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population. Income tax is taken as size. The population for primary belonging to income tax of Nepal. 100 simple size is selected from there different groups of respondents. The following table shows the group of respondents and sample size.

| S.N. | Group of Respondents | Sample size |
|-------|----------------------|-------------|
| 1 | Tax Administrator | 25 |
| 2 | Tax expert | 25 |
| 3 | Tax payer | 25 |
| 4 | Staff of PEs | 25 |
| Total | | 100 |

3.4 Sources of Data

According to the nature of the study, the study requires primary as well as secondary data.

Primary Data

We are collected through a schedule of self structures questionnaires, informal dialogues, discussion and interviews with concerned persons. Separate sets of questionnaires were used to have options/ information from three- sample population. To get the accurate and actual information total 120 questions were distributed to select for respondents of different group such as tax administrator, tax experts, tax payers and staffs of PEs. Set of 25 questionnaires were distributed for each group. Set of 30 questionnaires were distributed and 25 of them were collected from each group for purpose of analysis. The following table shows the questionnaire distributed and collected for each group of respondents:

| S.N. | Group of Respondents | Questionnaire distributed | Questionnaire collected |
|-------------|-----------------------------|----------------------------------|--------------------------------|
| 1 | Tax Administrator | 25 | 20 |
| 2 | Tax expert | 25 | 25 |
| 3 | Tax payer | 25 | 20 |
| 4 | Staffs of PEs | 25 | 20 |
| | Total | 100 | 85 |

Secondary Data

The secondary source of data has been collected in order to achieve the real and tactful result from this research. All the useful and possible data as per available have been collected. The secondary source of data and information are derived from published books, journals, newspaper, reports, surfing net etc. The major sources of secondary data are:

1. Annual Report of IRD
2. Economic survey and budget speeches(www.mof.gov.np)
3. Ministry of finance

3.5 Data and Information Collection Procedure

Total 120 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution works is done personally and through email to get accurate and actual information in time.

3.6 Data Analysis Procedure

The collection data are classified tabulated and analyzed in descriptive and analytical way as per the subject matter likewise, the required accounting principle,

mathematical approaches and legal provision of ITA, 2058 are taken into consideration in data analysis procedure.

3.7 Presentation and Analytical Tools

Various tools are applied while conduction this study which is table, percentage, correlation time series analysis.

- a) Table: Various tables are formulated to tabulate the data. A matter table is also presented in the appendix.
- b) Charts and diagrams: These tools are used for visually description of the data, trend line, bar diagrams are used for the purpose.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data related with tax collection from Public enterprises and it has been analyzed with tables, graphs and line charts.

4.1 Tax structure of Nepal

Modern economic planning of Nepal had started with the initiation of first economic planning in 2013 B.S. Since then taxes have been used for the achievement of national economic goals. So, taxes play vital role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes.

4.1.1. Structure of Nepalese Government Revenue

Government needs adequate budget for the development activities, operation of administration, maintaining peace and security and security and for other welfare activities. The required budget is collected from various sources. Generally the revenue collected by the government from various sources is known as public revenue/public receipt/National Exchequer. The structure of the government revenue in Nepal is the composition of tax revenue and non tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. Direct tax includes income tax, property tax, house and building registration, Vehicle tax and others.

An indirect tax includes customs, excise, and value added tax and others. On the other hand, non tax revenue is the composition of various receipts from different government entities. The government revenue is therefore the mixture of tax revenue and non tax revenue of various sources. Mostly, income of the government is generated through indirect tax in Nepal. They are: custom duty, excise duty and sales tax or VAT. Custom duties consists of export, import, Indian Excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial productions. The other indirect taxes, which are also important as the government revenue, comprise of contract tax, hotel tax, entertainment tax and air flight tax.

Direct tax revenue includes income tax, house and building registration, property tax, vehicle tax etc. The income tax is directly imposed upon the individuals' income or

profits. Income tax is the tax composition of income or profit of public enterprises, semi public enterprises, private corporate bodies, individuals and remuneration. The house and land registration, property tax and vehicle tax is also the part of indirect tax.

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

The government revenue includes different items. They are indirect taxes, direct taxes and non taxes. Compositions of Government Revenue in Nepal under various heads are shown in table 4.1.1

Table No. 4.1.1
Revenue Structure in Nepal
(From Fiscal year 2061/62 to 2064/65)

(Rs in Million)

| Fiscal | Tax Revenue | Non-Tax Revenue | Total Revenue |
|--------|-------------|-----------------|---------------|
|--------|-------------|-----------------|---------------|

| Year | Amount | percent | Amount | percent | Amount | percent |
|---------|-----------|---------|----------|---------|-----------|---------|
| 2061/62 | 54104.7 | 77.16 | 16018.0 | 22.84 | 70122.7 | 100 |
| 2062/63 | 57430.4 | 79.45 | 14851.7 | 20.55 | 72282.1 | 100 |
| 2063/64 | 71126.7 | 81.09 | 16585.5 | 18.91 | 87712.2 | 100 |
| 2064/65 | 85155.54 | 79.12 | 22466.95 | 20.88 | 107622.49 | 100 |
| 2065/66 | 116996.65 | 82.27 | 25214.68 | 17.73 | 142211.33 | 100 |
| Average | 76962.80 | 79.82 | 19027.36 | 20.18 | 95990.16 | 100 |

Source: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

The above table shows that tax revenue was gradually increasing in every year since 2061/62 amounting Rs. 116996.65 in the year 2065/66. But the percentage contribution of tax revenue was found to be fine-tuning on different years. This contribution was maximum in fiscal years 2065/66 i.e. 82.27percent. The non tax revenue amount was increasing in trend but in fiscal year 2063/64 and 2065/66 decreasing the amount. It was in fluctuant in different year and average contribution was 79.82 percent of tax revenue and 20.18 of non tax revenue during This 5 year's period.

Figure No. 4.1

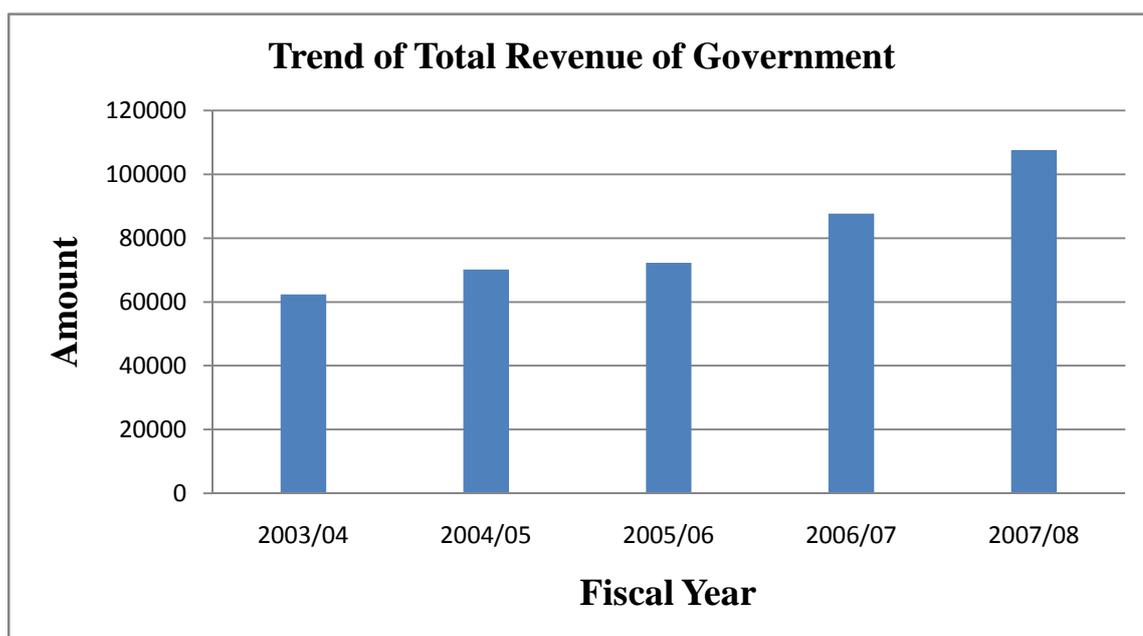


Figure No.4.2

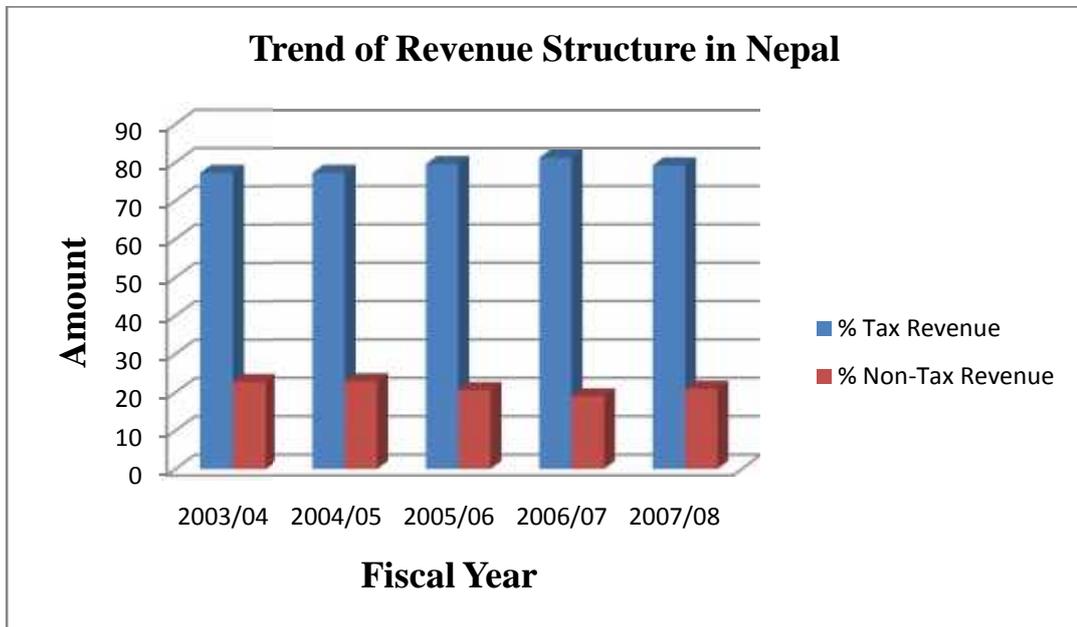
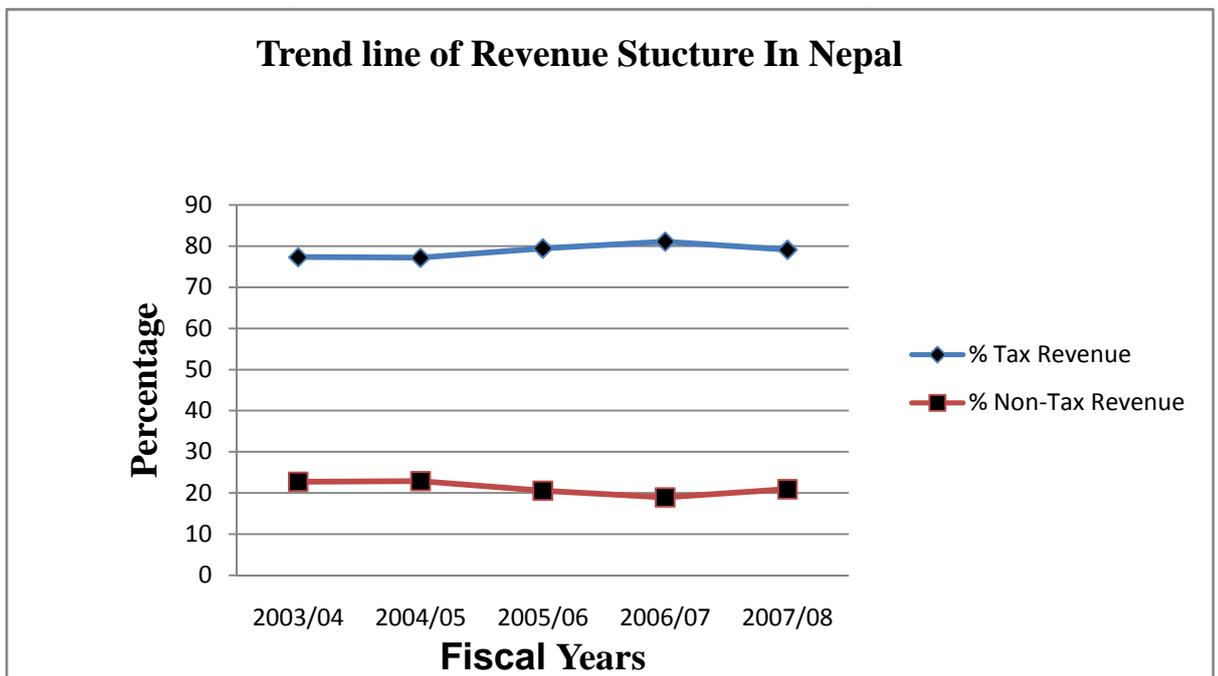


Figure No. 4.3



4.1.2 Share of Direct Tax and Indirect tax on Total Tax Revenue and Total Revenue

Tax Revenue was divided into two classes; direct and indirect. A direct tax was such type of tax which was imposed upon the person out of his income or property. A direct tax was really paid by the person or whom it was legally imposed. The taxpayer from other can not shift the burden of paying tax to the other person. She/he must pay it from his/her own pocket. Like income tax, property tax, expenditure tax, gift tax, contract tax, vehicle tax and others were the best examples of direct tax. On the other hand, an indirect tax was such type of tax which was imposed upon any person but without direct collection from him. An indirect tax was imposed on one person but paid partially or wholly by the others. Sales taxes, VAT, entertainment tax, customs, excise duty were the good examples of this sort of tax. Thus direct tax was any tax which was imposed to a person who bears its direct economic burden by him and indirect tax was any sort of tax in which economic burden was shifted to the other person. For instance, government imposes VAT on goods sold, but the amount of Vat was collected from the buyers or the customers. Here tax was imposed upon the sellers but buyer bears the responsibility of tax payment in an indirect manner by paying VAT additionally to the price of the goods or service. Table No.4.1.2 shows the major sources of direct tax.

Table No 4.1.2
Major sources of Direct Tax

(Rs. in Million)

| Fiscal Year | Direct Tax | Total Percent | Income tax | IT as percent of DT | House & land tax | House and Land tax as percent of DT |
|--------------------|-------------------|----------------------|-------------------|----------------------------|-----------------------------|--|
| 2061/62 | 13071.80 | 100 | 10452.64 | 79.96 | 2619.16 | 20.04 |
| 2062/63 | 13968.01 | 100 | 10896.45 | 78.01 | 3071.56 | 21.99 |
| 2063/64 | 18980.30 | 100 | 15621.43 | 80.30 | 3358.87 | 17.70 |
| 2064/65 | 23087.76 | 100 | 19077.81 | 82.36 | 4009.95 | 17.37 |
| 2065/66 | 35787.48 | 100 | 27547.79 | 76.98 | 8239.69 | 23.02 |
| Average | 20979.07 | 100 | 16719.22 | 79.98 | 4259.85 | 20.02 |

Sources: *I. I. Ministry of Finance*

2. Annual Report of IRD 2064/65

The above table Income tax was major sources of Income tax and the percentage on collection of income tax and house and land tax fluctuating. The highest percent of income tax was 82.63 percent in fiscal year 2064/65 and lowest percent was 78.01 percent in fiscal year in 2062/63 which average collection was Rs. 16719.22 million in during this 5 year's period. The highest percent of house and land tax was 23.02 percent in fiscal year 2065/66 and lowest percent was 17.70 percent in fiscal year in 2064/65 which average collection was Rs.4259.85 million in during This 5 year's period.

Figure No. 4.4

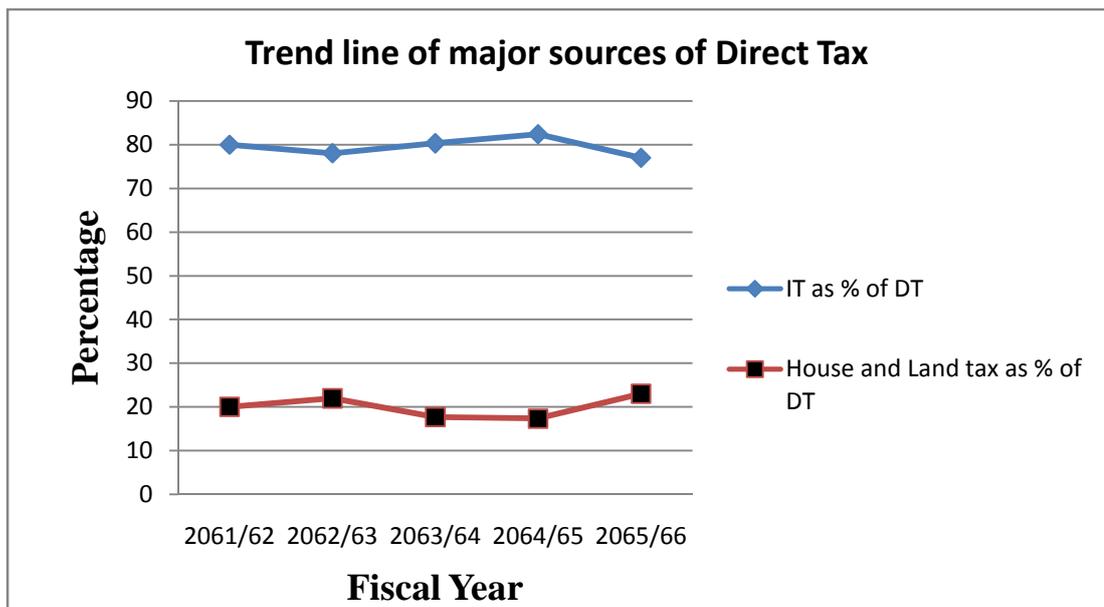


Table 4.1.3 shows the contribution ratio of the direct tax on tax revenue and total revenue of the government.

Table No. 4.1.3

Ration of Direct Tax in Total Tax Revenue and Total Revenue

(Rs. in Million)

| Fiscal | Total | Total Tax | Direct | Direct Tax on | Direct Tax on Total |
|--------|-------|-----------|--------|---------------|---------------------|
|--------|-------|-----------|--------|---------------|---------------------|

| Year | Revenue | Revenue | Tax | Total Revenue | Tax Revenue |
|---------|-----------|-----------|----------|---------------|-------------|
| 2061/62 | 70122.7 | 54104.7 | 13071.80 | 18.64 | 24.16 |
| 2062/63 | 72282.1 | 57430.4 | 13968.01 | 19.32 | 24.32 |
| 2063/64 | 87712.2 | 71126.7 | 18980.30 | 21.64 | 26.69 |
| 2064/65 | 107622.49 | 85155.54 | 23087.76 | 21.45 | 27.11 |
| 2065/66 | 142211.33 | 116996.65 | 35787.48 | 25.16 | 30.59 |
| Average | 95990.16 | 76962.80 | 20979.07 | 21.24 | 26.57 |

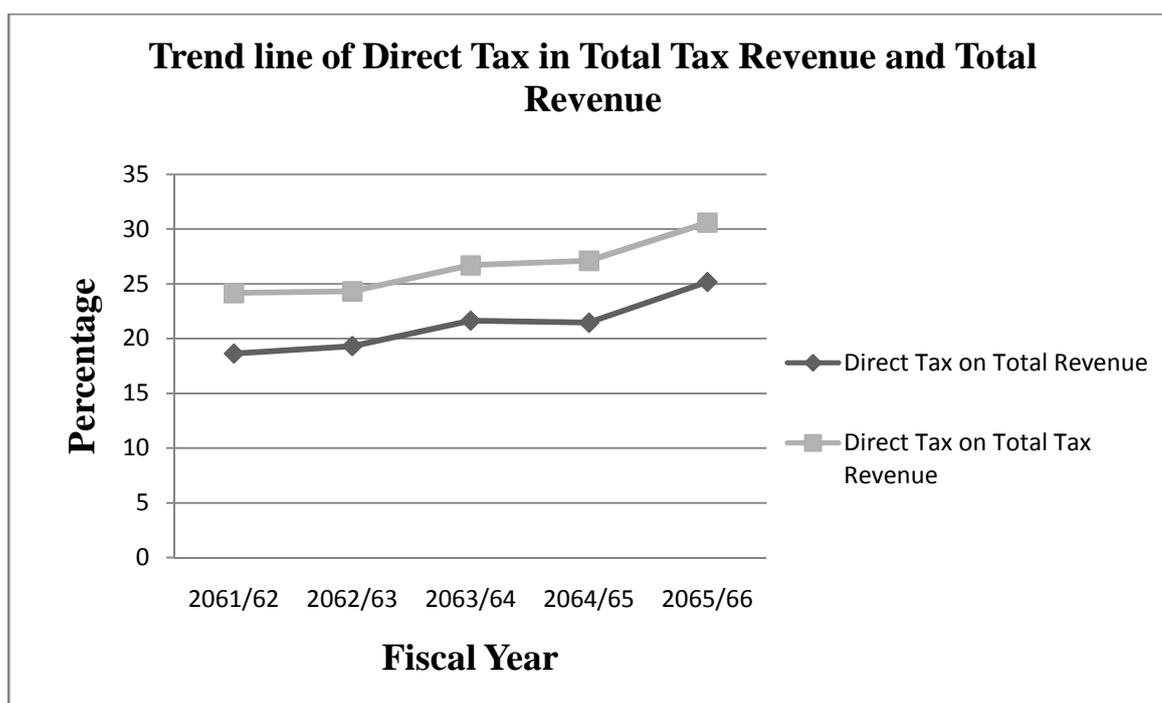
Sources I. Ministry of Finance

2. Annual Report of IRD 2064/65

In the above table the initial share of the direct tax on total revenue was 18.64 percent which was 24.16 percent on total revenue in the FY 2061/62. In that year Rs. 13071.80 million was collected from the direct tax. The percentage of direct tax on total revenue and total tax revenue was increasing yearly and reached 25.16 percent and 30.59 percent respectively in F/Y 2065/66. The average contribution was 21.24 percent on total revenue and 26.57 percent of total tax revenue during this 5 year's period.

This relationship was also presented in figure no 4.5.

Figure No. 4.5



Direct Tax on Total Revenue was more fluctuating than Direct Tax on Total Tax revenue. The reason behind fluctuation was the highest collection from direct tax. The income tax collection has been increasing due to increase in number of the taxpayers and their taxable amount and profits. In conclusion, it can be said that the positive trend of direct tax denoted economic improvement of the nation, even though the nation was in deep trouble being in the transition phase. Table no. 4.1.4 shows the major sources of indirect tax.

Table No. 4.1.4
Major sources of Indirect tax

(Rs. In Million)

| FY | Indirect Tax | Total percent | Custom duties | percent of IDT | Excise duty | percent of IDT | VAT | percent of IDT |
|---------|--------------|---------------|---------------|----------------|-------------|----------------|---------|----------------|
| 2061/62 | 41032.9 | 100 | 15691.8 | 38.24 | 6446.5 | 15.71 | 18894.6 | 46.05 |
| 2062/63 | 43462.3 | 100 | 15004.1 | 38.24 | 6512.2 | 14.98 | 21946.0 | 46.78 |
| 2063/64 | 52146.4 | 100 | 16908.4 | 32.42 | 8533.8 | 16.37 | 26704.2 | 51.21 |
| 2064/65 | 62067.7 | 100 | 21734.3 | 35.02 | 10517.7 | 16.95 | 29815.7 | 48.03 |
| 2065/66 | 81209.18 | 100 | 25829.18 | 31.81 | 15432.5 | 19.00 | 39947.5 | 49.19 |
| Average | 52155.46 | 100 | 19033.56 | 35.15 | 9488.54 | 16.60 | 27461.6 | 48.25 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

Table shows the composition of indirect tax given as follows:

Note:-

1. Custom duties include imports+ export Indian excise Refund + others.
2. Excise includes industrial products
3. Value added tax includes sales tax. Entertainment tax, Hotel tax, Air flight tax and contract tax.

In the above table shows the major sources of indirect tax were VAT and all the sources were fluctuating in different year. The highest percent of VAT was 51.21 percent in fiscal year 2063/64 and lowest percent was 46.05 percent in fiscal year in 2061/62 which average collection was Rs. 27461.6 million and 48.25 percent in during this 5 year's period. The highest percent of custom duty was 38.24 percent in fiscal year 2061/62 and 2062/63 and lowest percent was 31.81 percent in fiscal year in 2065/66 which average collection was Rs. 19033.56 million and 35.15 percent in during this 5 year's period. The highest percent of excise duty was 19 percent in fiscal year 2065/66 and lowest percent was 14.98 percent in fiscal year in 2062/63 which average collection was Rs. 9488.54 million and 16.60 percent in during this 5 year's period.

Figure No. 4.6

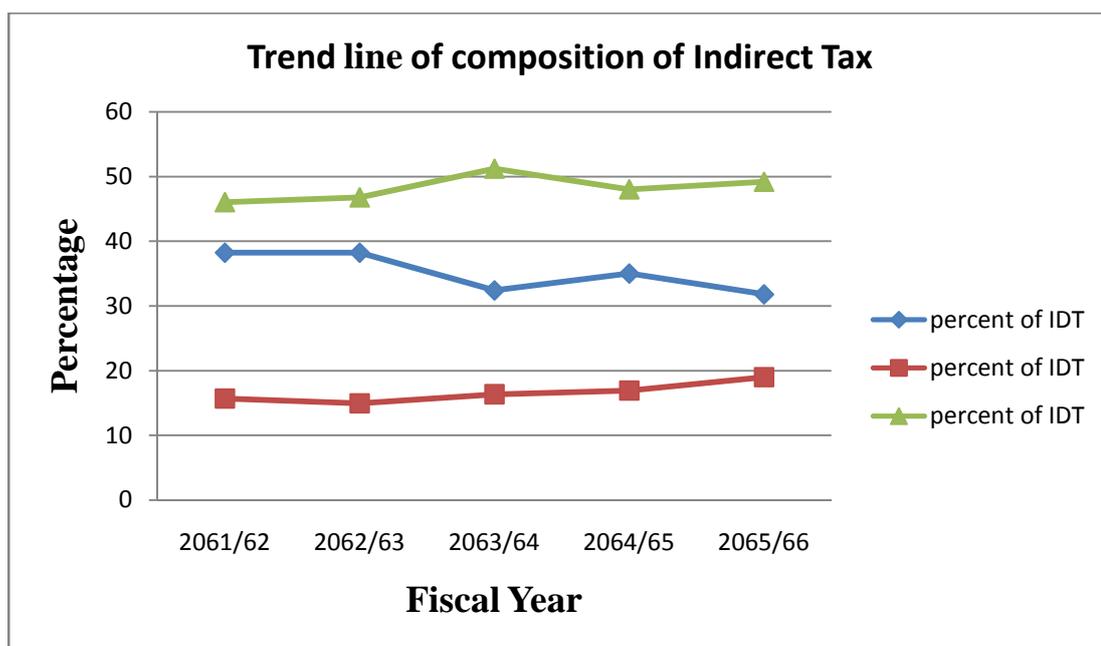


Table 4.1.5 shows the contribution ratio of the indirect tax on tax revenue and total revenue of the government.

Table No 4.1.5

Ration of Indirect Tax in Total Tax Revenue and Total Revenue

(Rs. In Million)

| FY | Total Revenue | Total Tax Revenue | Indirect Tax | Indirect Tax on Total Revenue | Indirect Tax on Total Tax Revenue |
|----|---------------|-------------------|--------------|-------------------------------|-----------------------------------|
| | | | | | |

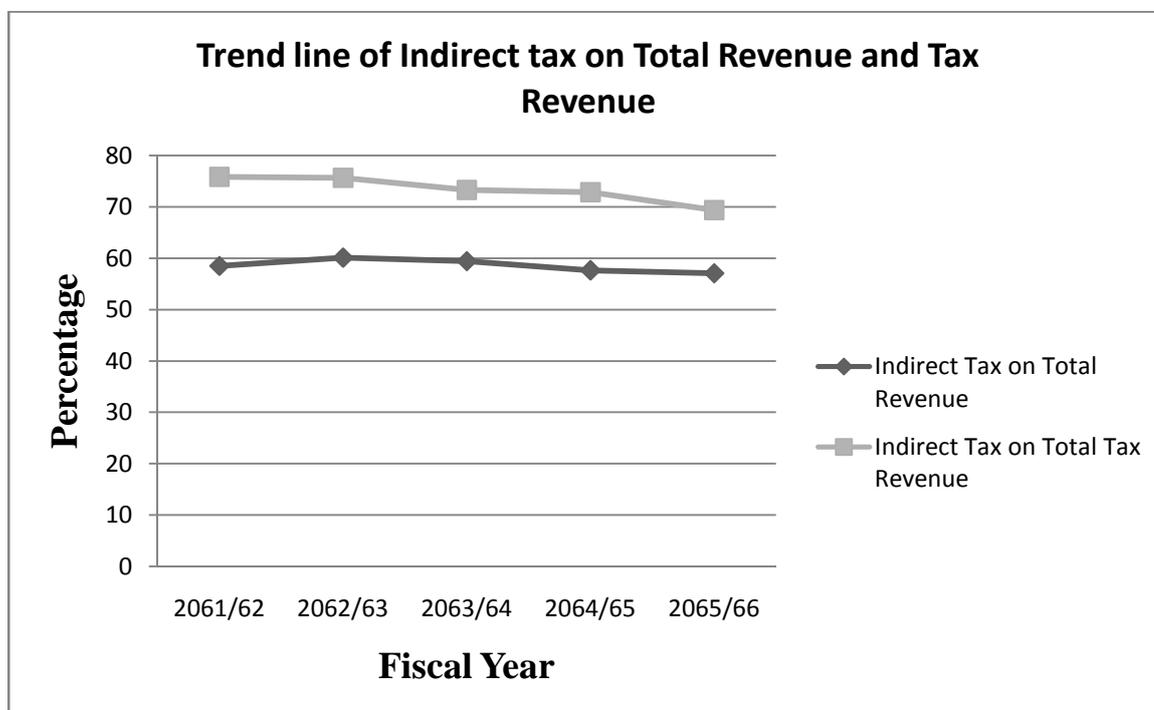
| | | | | | |
|---------|-----------|-----------|----------|-------|-------|
| 2061/62 | 70122.7 | 54104.7 | 41032.9 | 58.52 | 75.84 |
| 2062/63 | 72282.1 | 57430.4 | 43462.3 | 60.13 | 75.68 |
| 2063/64 | 87712.2 | 71126.7 | 52146.4 | 59.45 | 73.31 |
| 2064/65 | 107622.49 | 85155.54 | 62067.7 | 57.67 | 72.89 |
| 2065/66 | 142211.33 | 116996.65 | 81209.18 | 57.10 | 69.41 |
| Average | 95990.16 | 76962.80 | 52155.46 | 58.88 | 44.97 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

In the above table the initial share of the indirect tax on total revenue was 58.52 percent which was 75.84 percent on total revenue in the F/Y 2061/62. In that year Rs. 13071.80 million was collected from the direct tax. The percentage of indirect tax was decreasing in yearly and reached 58.874 percent and 44.966 percent respectively. The average contribution was 58.87 percent of tax revenue and 44.97 percent of non tax revenue during this 5 year's period.

Figure No. 4.7



4.1.3 Structure of Income Tax in Nepal

Income tax is levied on net taxable income. This means that not all incomes accrued from all sources brought into the payment of income tax. The Income Tax Act, 2002 has mentioned about income tax as personal income tax levied upon individual where as Corporate tax levied upon organizations. The government therefore imposes income tax upon the person (individuals, firms and companies) earning taxable incomes without direct benefit to them. Paying income tax is the duty of a person to the state.

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

1. Income form Business: It includes income and profit from industry, business, profession and other business transaction, professional fees, service fees, sales proceeds of business stocks, amounts received from disposal of business assets and liabilities, proceeds from disposal of depreciable assts, business gifts, receipts from business restriction and receipts of amount from deeds directly related to business.
2. Income from employment: It includes various receipts. They are wages, salaries, allowances, fees, commissions, awards, gifts, bonus and other facilities. The other facilities include additional payment for Dashain, housing facility, vehicle facility and telephone facility and so on. Similarly dearness allowance, house rent, entertainment, transportation costs and costs of living expenses are also the remuneration of employees. Besides, receipts made in agreement of doing job and many other receipts in retirement such as retirement contribution and other amount prescribed by Income Tax Act are subjected to tax.
3. Income from investment: The third head of income is investment income, which includes various incomes received by investing assets in any business sector. They are dividend, interest, rent receipts, receipts from investment, insurance, gain from unrecognized retirement

fund. It also includes proceeds from the sale of non-business assets. Capital gains from disposal of depreciable assets, gifts received in relation with investment, amount received in the acceptance of restriction of investment and others. Thus, taxable income is a composition of above mentioned various income sources.

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

4.1.4 Contribution of Income in Nepal

Nepal has late started parting of income tax the idea of introduction income tax in Nepal was originated along with the first budget on 1951. Finally in 1959, Business profit and Remuneration Tax Act 1960 was introduced. At that time income tax was levied only on business profits and salaries. After about three years experience of income tax, the government replaced the prevailed tax and by income tax Act, 2031 was enacted. However, this act is replaced by income tax Act, 2058.

The contributions of income tax on various revenue were given in the following table.

Table No. 4.1.6
Composition of Income in Nepal

(Rs. in Million)

| Fiscal Year | Corporate tax | Remuneration | Investment | Others | Income tax |
|--------------------|----------------------|---------------------|-------------------|---------------|-------------------|
| 2061/62 | 5327.32 | 1676.98 | 2194.69 | 1253.65 | 10452.64 |
| 2062/63 | 5398.70 | 1751.15 | 2483.15 | 1266.45 | 10896.45 |
| 2063/64 | 11515.84 | 2483.15 | 481.22 | 1141.22 | 15621.43 |

| | | | | | |
|---------|----------|---------|---------|--------|----------|
| 2064/65 | 13268.76 | 2451.01 | 3271.48 | 86.56 | 19077.81 |
| 2065/66 | 18980.63 | 3270.60 | 5175.56 | 121 | 27547.79 |
| Average | 10897.65 | 2326.58 | 2721.22 | 773.78 | 16719.23 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

Total Income tax was increasing each year and reached 19682.51 in fiscal year 2065/66.

Income tax constitutes Income tax from corporate, remuneration, investment and others. The share of these different sources in percentage was shown also presented in table 4.1.7

Table no 4.1.7
Percentage on composition of Income in Nepal
(Rs in Million)

| Fiscal Year | percent as CT in IT | percent as remuneration in IT | percent as Investment in IT | percent as others in IT | Total percent of IT |
|--------------------|----------------------------|--------------------------------------|------------------------------------|--------------------------------|----------------------------|
| 2061/62 | 51 | 16.04 | 21 | 11.96 | 100 |
| 2062/63 | 49.55 | 16.07 | 22.29 | 11.59 | 100 |
| 2063/64 | 73.72 | 15.90 | 3.08 | 7.3 | 100 |
| 2064/65 | 69.55 | 12.85 | 17.15 | 0.45 | 100 |
| 2065/66 | 68.90 | 11.87 | 18.79 | 0.44 | 100 |
| Average | 62.54 | 14.55 | 16.56 | 6.35 | 100 |

Sources: 1. Economic Survey 2065/66

2. Annual Report of IRD 2064/65

Figure No. 4.8

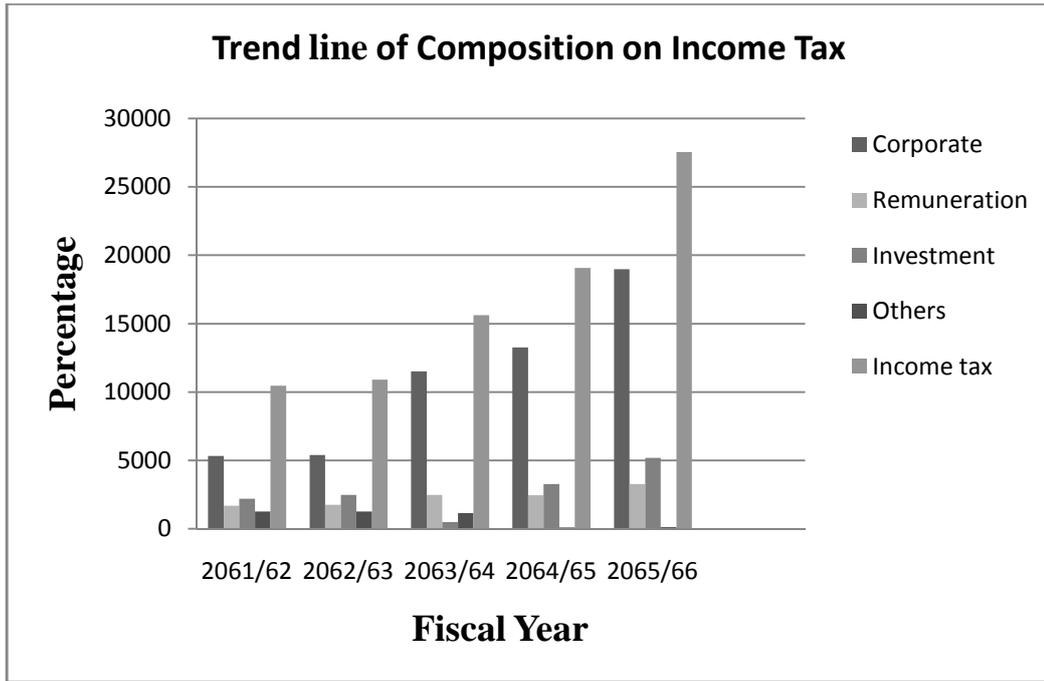
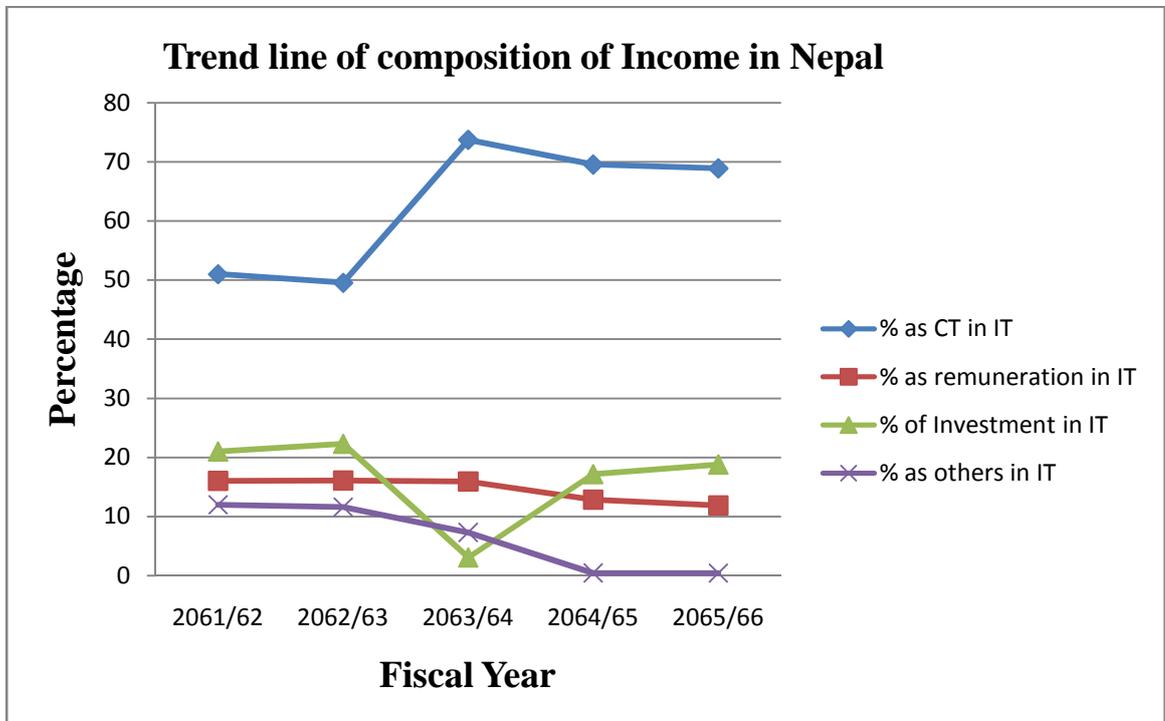


Figure No. 4.9



In the above table corporate tax was the major sources of income tax. The corporate income tax and tax collection from investment were fluctuating and the remuneration was decreasing from 2062/63 and reached 11.87 percent in the fiscal year in 2065/66. The income tax collection from others items was decreasing yearly and reached 0.44 percent in the fiscal year 2063/64. The highest percent of corporate tax was 73.72 percent in fiscal year 2065/66 and lowest percent was 49.55 percent in fiscal year in 2062/63 which average collection was 62.54 in during this 5 year's period.

4.1.5 Role of Corporate Tax in Nepal

Corporate tax has a very important role in the developing countries. Nepal, being an impoverished and land locked country, has always had budget deficits since the inception of the budgeting practice. Unfortunately, the whole economic sector of Nepal has been badly affected due to various reasons such as poor education system, least development of infrastructure, poor trade relation with third countries, lack of strong commitment of the government, instability of government, and so on. Income tax is one of the best and vital resources of national revenue that can be mobilized in the country to attain development. The increment in income tax is justifiable for the development of infrastructure as increasing other indirect taxes will give a tremendous burden to the already poor people. Increase in other taxes will also have a serious effect in other sectors of economy. The income tax can be increased as it is levied to the income generator without affecting others. It gives incentives to the people to work hard and increase economic transaction. The number of tax payers can also be increased by investigating potential tax payers who are not contributing. The income tax has a positive effect on the people's ability to work. The individual deficit will be compensated by the government's expenditure on the poor and middle class to raise their level of income, providing them better housing and education. Thus, it is levied not only for raising national revenue but also to bridge the gap between the rich and the poor. A highly progressive income tax if administered properly should be able to reduce inequalities in the short run. Progressive income tax levies taxes at a low rate for low income earners and high tax rate for the high income earners. Therefore most countries have been using this policy not only for the revenue to the state but also to solve the problem of inequality in income.

Moreover, the government itself will be one of the main sources of capital formation as it will invest part of the tax proceeds in industries, transport and communication. Thus if the revenue from income taxes is devoted to national building, it stabilizes and promotes business activity and increase the volume of national income.

Most of the people in developing countries do not have to pay individual income tax because they are least income earners. In this situation, income tax from corporate bodies, play vital role in resource mobilization in the nation. The other points of corporate tax are that it is easily identifiable and accounts can be maintained in a proper way. They can not escape from tax liability and evade taxes as the individual tax payers can. Unfortunately, Industrial sector has not been able to develop in Nepal. Some government enterprises have been privatized, most of which are not in operation. Even the private limited companies have been practicing tax evasion. This decreases the revenue from corporate income tax. As said earlier, there are only a limited number of corporate bodies in the country. Though their economic performance is very low and not much satisfactory, their contribution is still higher in total government revenue.

Table 4.1.8
Composition of Corporate Tax

(Rs in Million)

| Fiscal Year | PEs | Public Ltd. Co. | Private Ltd. Co. | Corporate tax |
|--------------------|------------|------------------------|-------------------------|----------------------|
| 2061/62 | 1331.56 | 2467.62 | 1528.14 | 5327.32 |
| 2062/63 | 185.89 | 3522.77 | 1687.04 | 5398.70 |
| 2063/64 | 1018.32 | 5711.30 | 4786.22 | 11515.84 |
| 2064/65 | 204.58 | 7186.46 | 5877.45 | 13268.49 |
| 2065/66 | 321.03 | 9919.69 | 8739.31 | 18980.03 |
| Average | 612.28 | 5761.59 | 4523.63 | 10897.50 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

Table No. 4.1.9

Percentage on composition of corporate tax

| Fiscal Year | Percentage of PEs as CT | Percentage of Public Ltd. Co. as CT | Percentage of Private Ltd. Com. as CT | Total Percentage |
|-------------|-------------------------|-------------------------------------|---------------------------------------|------------------|
| 2061/62 | 24.99 | 46.32 | 28.69 | 100 |
| 2062/63 | 3.44 | 65.25 | 31.31 | 100 |
| 2063/64 | 8.84 | 49.60 | 41.56 | 100 |
| 2064/65 | 1.54 | 54.16 | 44.30 | 100 |
| 2065/66 | 1.69 | 52.26 | 46.05 | 100 |
| Average | 8.10 | 53.52 | 38.38 | 100 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

Table 4.1.8 shows the composition of corporate tax. The amount of corporate tax was increasing yearly and reached Rs.18980.03 million in the fiscal year 2065/66. The contribution of public Ltd. was highest in the corporate tax and the lowest was from PEs. All the majors' sources of corporate tax were fluctuating in different year which were shown in below figures:

Figure No. 4.10

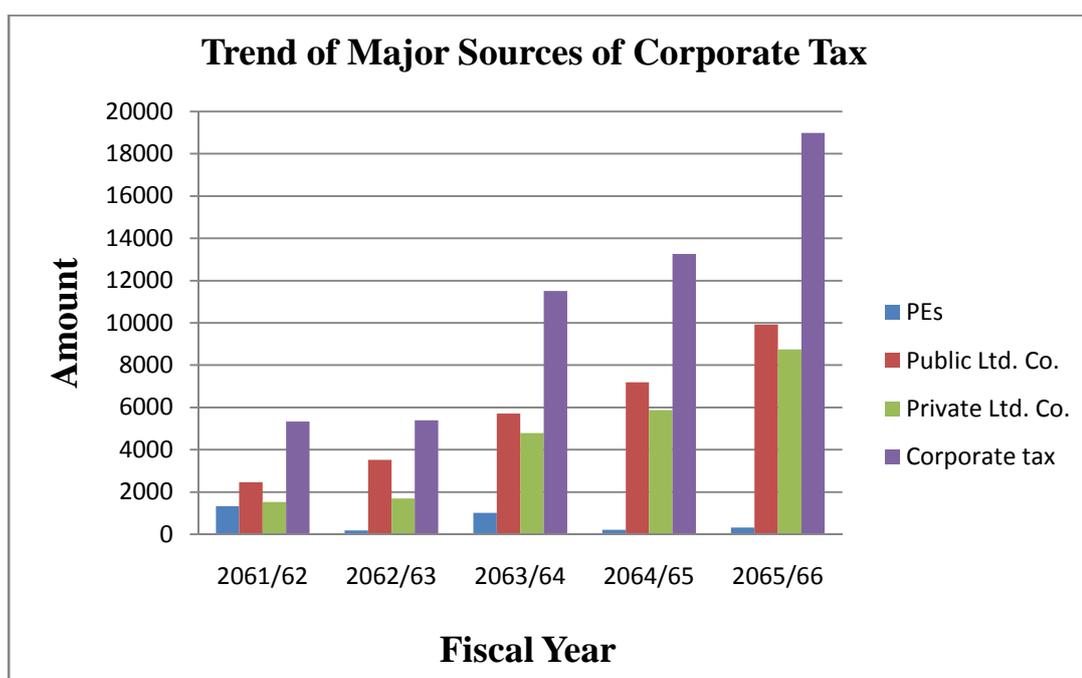


Figure No. 4.11

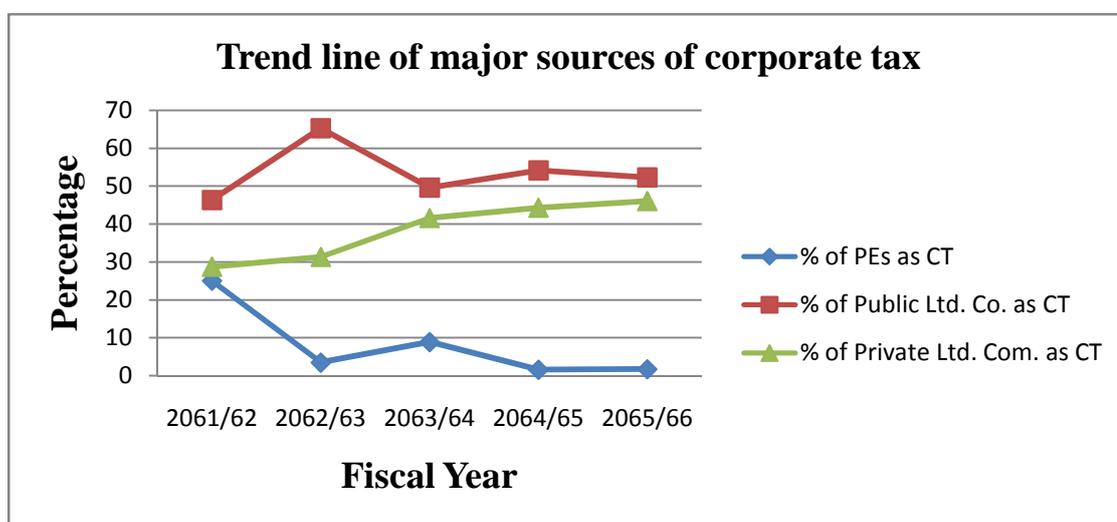


Table 4.1.10

Contribution of Corporate Tax on Government Revenue

(Rs in Million)

| FY | Government Revenue(GR) | Corporate Tax | Corporate Tax percentage on GR |
|---------|------------------------|---------------|--------------------------------|
| 2061/62 | 70122.7 | 5327.32 | 7.60 |
| 2062/63 | 72282.1 | 5398.70 | 7.46 |

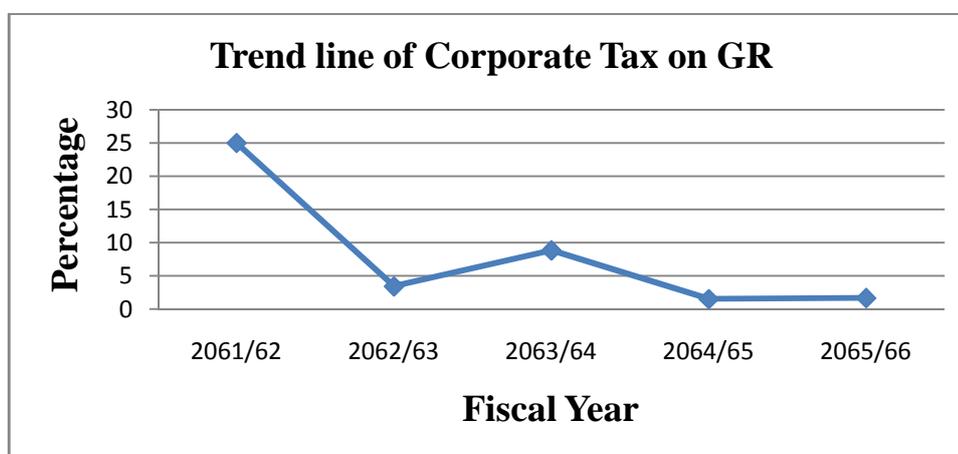
| | | | |
|---------|-----------|----------|-------|
| 2063/64 | 87712.2 | 11515.84 | 13.13 |
| 2064/65 | 107622.49 | 13268.49 | 12.33 |
| 2065/66 | 142211.33 | 18980.03 | 13.35 |
| Average | 95990.16 | 10897.50 | 10.78 |

Source I. Ministry of Finance

2. Annual Report of IRD 2064/65

In the above table shows the corporate tax was the direct tax which was the main source of government revenue. The above table shows the percentage of corporate tax in government revenue and its percentage was fluctuating in trend and highest was in fiscal year 2065/66 and lowest was in 2061/62 which percent were 13.65 and 7.6 respectively. The average percentage contribution of corporate tax to government was 10.78 during 5 years study period which was lowest than other tax. It was shown in the below figure also.

Figure No. 4.12



4.1.6 Tax collection from PEs in Different Year

Table 4.1.11

Tax Collection from PEs in Different Years

(Rs. in Million)

| Fiscal Year | Tax from PEs |
|-------------|--------------|
| 2061/62 | 1331.56 |

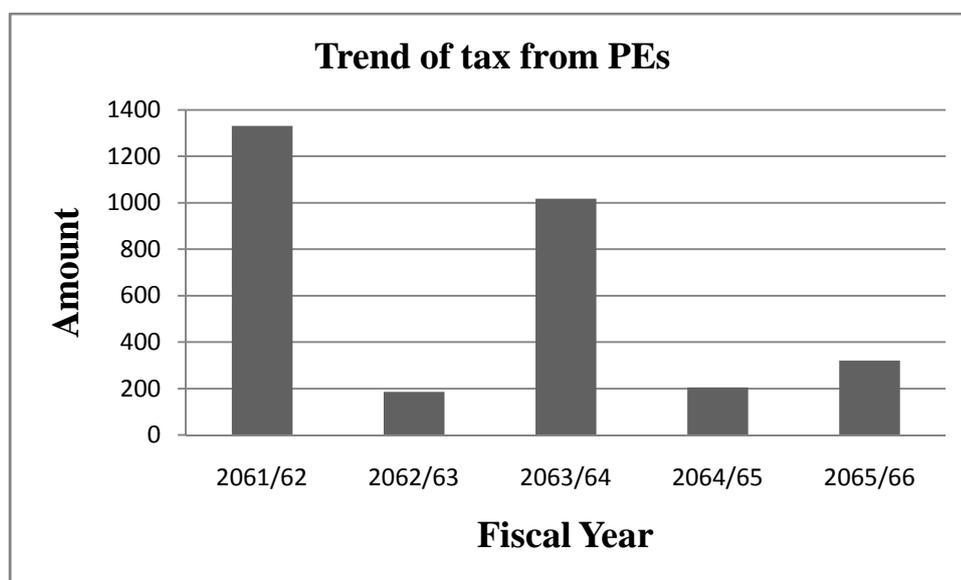
| | |
|---------|---------|
| 2062/63 | 185.89 |
| 2063/64 | 1018.32 |
| 2064/65 | 204.58 |
| 2065/66 | 321.03 |
| Average | 612.28 |

Sources: 1.Ministry of Finance

2. Annual Report of IRD 2064/65

The above table shows that revenue collection from public enterprises and its revenue collection was fluctuating where Rs.1331.56 million in fiscal year 2061/62 and Rs.321.03 million in fiscal year in 2065/66. The average collection was Rs 612.28 million during this 5 years study period.

Figure No. 4.13



4.1.7 Contribution of Income Tax from PEs to GDP of Nepal

Table No. 4.1.12

Contribution of Income Tax from PEs to GDP of Nepal

From F/Y 2003/04 to 2064/65

(Rs. in Million)

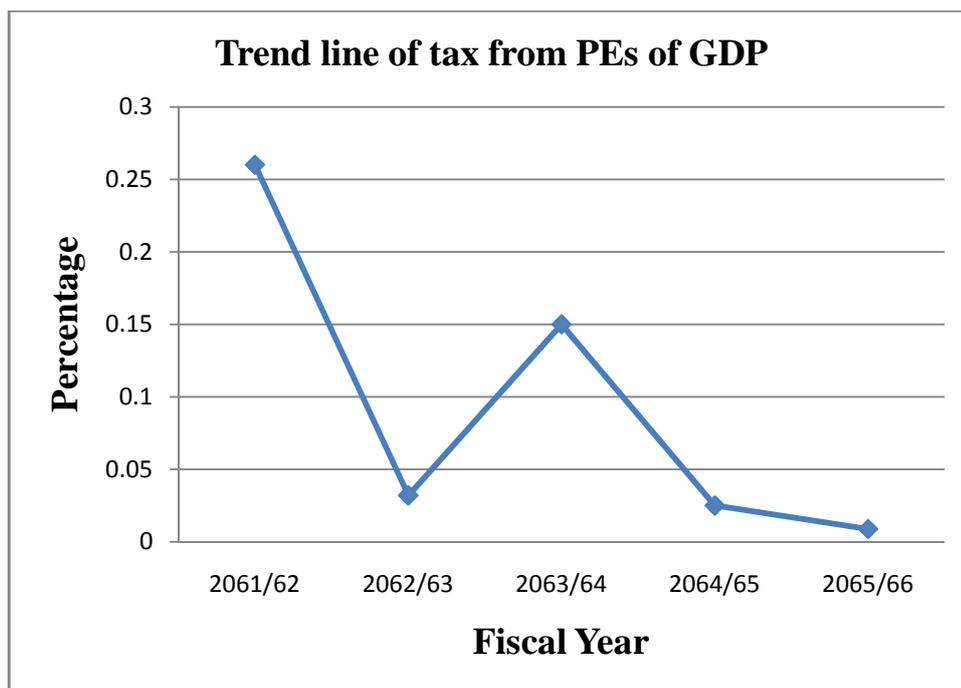
| FY | GDP | Tax from PEs | Tax from PEs as percentage of GDP |
|-----------|-------------|---------------------|--|
| 2061/62 | 504101.00 | 1331.56 | 0.26 |
| 2062/63 | 582950.00 | 185.89 | 0.032 |
| 2063/64 | 670588.70 | 1018.32 | 0.15 |
| 2064/65 | 820814.00 | 204.58 | 0.025 |
| 2065/66 | 1063440.00 | 321.03 | 0.0088 |
| Average | 36418963.70 | 612.28 | 0.095 |

Sources: 1. *Economic Survey 2065/66* (www.mof.gov.np)

2. *Annual Report of IRD 2064/65*

The contribution of income tax from PEs in GDP was presented in above table. The share of income tax from PEs in the GDP of Nepal was very low. The share of income tax from PEs in GDP lays 0.0088 percent to 0.26 percent during the study period. Its share was 0.26 percent in FY 2061/62, 0.032 percent in FY 2062/63, 0.15 percent in FY 2063/64 0.025 percent in FY 2064/65, and 0.0088 percent in FY 2065/66. The contribution of e tax from PEs in GDP was in fluctuating trend in last 5 years. The average percentage share of income tax from public enterprises in income tax revenue was 0.095 during the period of five years. It was shown in the below figure also.

Figure No: 4.14



4.1.8 Contribution of Income Tax from PEs to Government revenue of Nepal

Table No. 4.1.13

Contribution of Income Tax from PEs to Government revenue of Nepal

(Rs. in Million)

| Fiscal | Government | Tax from PEs | Tax from PEs as |
|--------|------------|--------------|-----------------|
|--------|------------|--------------|-----------------|

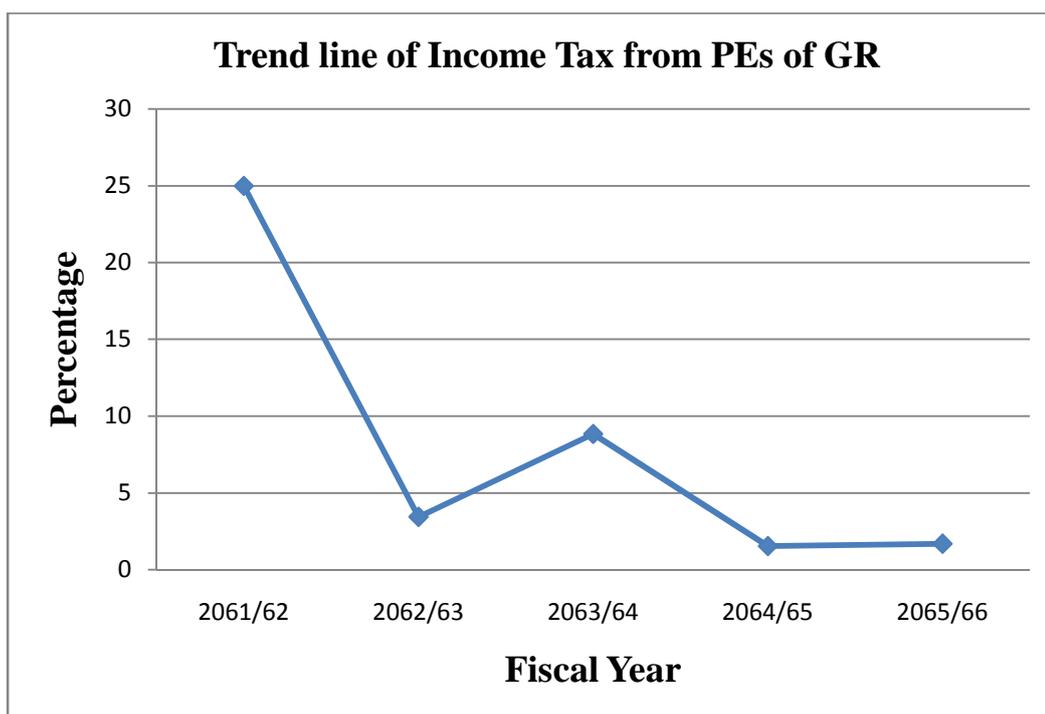
| Year | Revenue(GR) | | percentage of GR |
|-------------|--------------------|----------|-------------------------|
| 2061/62 | 70122.7 | 10452.64 | 1.9 |
| 2062/63 | 72282.1 | 10896.45 | 0.26 |
| 2063/64 | 87712.2 | 15621.43 | 1.2 |
| 2064/65 | 107622.49 | 19077.81 | 0.19 |
| 2065/66 | 142211.33 | 27547.79 | 0.23 |
| Average | 95990.16 | 16719.23 | 0.76 |

Sources: 1.Ministry of Finance

2. Annual Report of IRD 2064/65

The contribution of Income Tax from PEs in government revenue was presented in above table. The share of income tax from PEs in government revenue was very low. The maximum and minimum contribution percentage of income tax from PEs in government revenue was 1.90 percent and 0.19percent in FY 2061/62 and 2064/65. The percentage of income tax from PEs in government revenue was in the fluctuating trend. The average percentage share of tax from public enterprises in government revenue was 0.76 during the period of five years. It was shown in the below figure also. It was shown in the below figure also.

Figure No. 4.15



4.1.9 Contribution of Income Tax from PEs to Tax Revenue of Nepal

Table No. 4.1.14

Contribution of Income Tax from PEs to Tax Revenue of Nepal

(Rs. in Million)

| Fiscal Year | Tax Revenue | Tax from PEs | Tax from PEs as percentage of Tax Revenue |
|-------------|-------------|--------------|---|
| 2061/62 | 54104.7 | 1331.56 | 2.46 |
| 2062/63 | 57430.4 | 185.89 | 0.32 |
| 2063/64 | 71126.7 | 1018.32 | 1.43 |
| 2064/65 | 85155.54 | 204.58 | 0.24 |
| 2065/66 | 116996.65 | 321.03 | 0.27 |
| Average | 76962.798 | 612.28 | 0.94 |

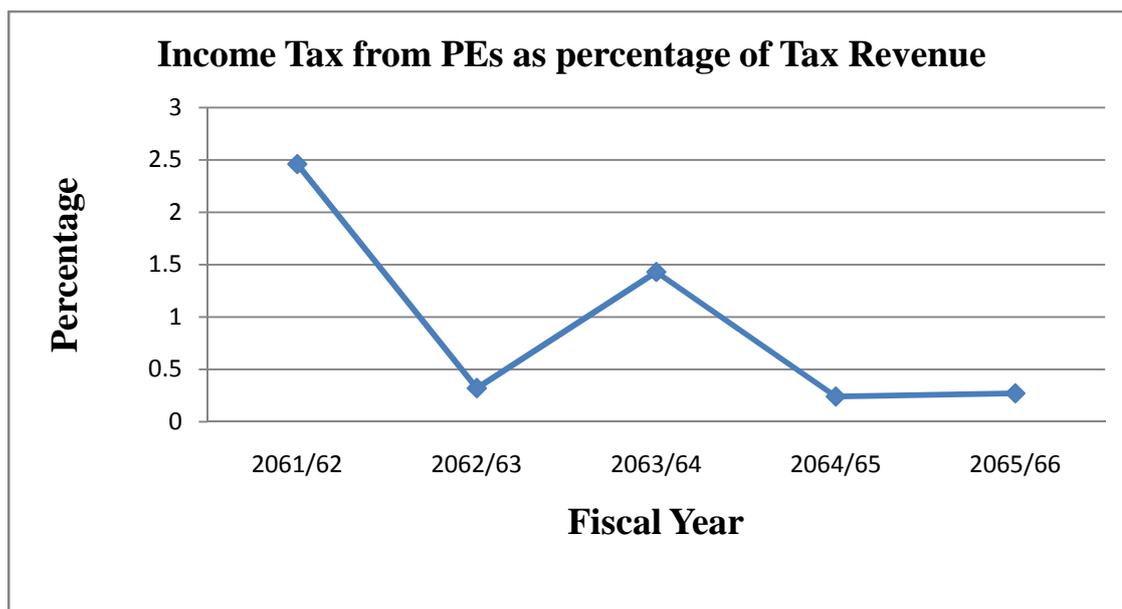
Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

The contribution of Income Tax from PES in Tax Revenue was presented in above table. The share of income tax from PEs in Tax Revenue was very low. The

maximum and minimum contribution percentage of income tax from PEs in government revenue was 2.46percent and 0.24percent in FY 2061/62 and 2064/65. The percentage of income tax from PEs in government revenue was in the fluctuating trend. The average percentage share of tax from public enterprises in tax revenue was 0.94 during the period of five years. It was shown in the below figure also.

Figure No. 4.16



4.1.10 Contribution of Income Tax from PEs to Direct Tax of Nepal

Table No. 4.1.15

Contribution of Income Tax from PEs to Direct Tax of Nepal

(Rs. in Million)

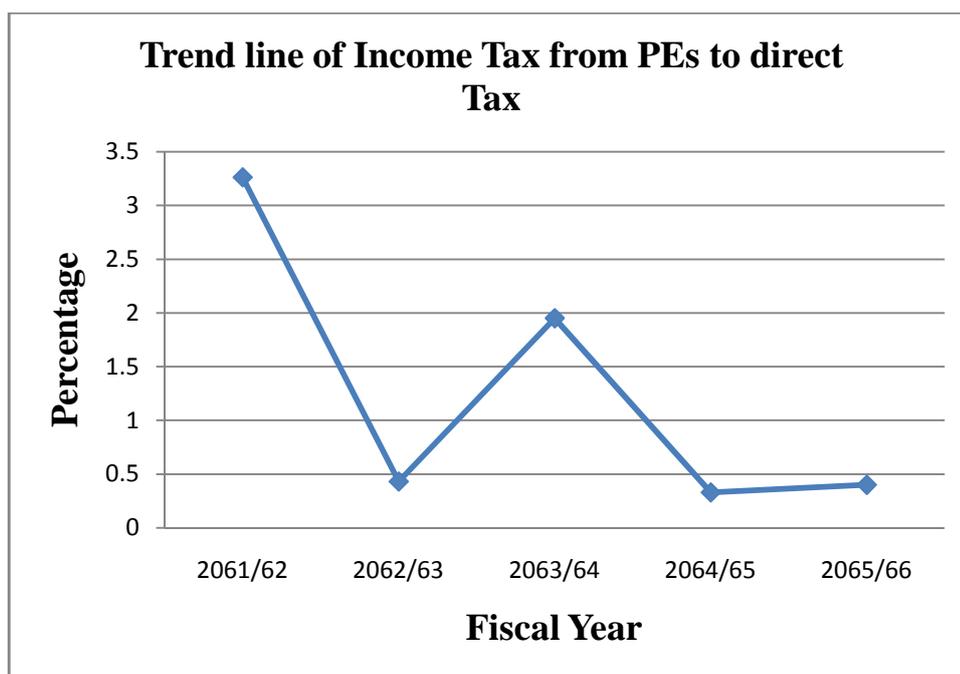
| Fiscal Year | Direct Tax | Tax from PEs | Tax from PEs as percent of Direct Tax |
|-------------|------------|--------------|---------------------------------------|
| 2061/62 | 13071.80 | 1331.56 | 10.19 |
| 2062/63 | 13968.01 | 185.89 | 1.33 |
| 2063/64 | 18980.30 | 1018.32 | 5.37 |
| 2064/65 | 23087.76 | 204.58 | 0.89 |
| 2065/66 | 35787.48 | 321.03 | 1.53 |
| Average | 20979.07 | 612.28 | 2.92 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

The contribution of Income Tax from PES in direct tax was presented in above table. The share of income tax from PEs in direct tax was very low. The maximum and minimum contribution percentage of income tax from PEs in government revenue was 10.19percent and 0.89percent in FY 2003/04 and 2064/65. The average percentage contribution of PEs to direct tax was 2.92 during this 5 years study period. The percentage of income tax from PEs in government revenue was in the fluctuating trend. The average percentage share of tax from public enterprises in direct tax was 2.92 during the period of five years. It was shown in the below figure also.

Figure No: 4.17



4.1.11 Contribution of Income Tax from PEs to Indirect Tax of Nepal

Table No. 4.1.16

**Contribution of Income Tax from PEs to Indirect Tax of Nepal
(Rs. in Million)**

| Fiscal Year | Indirect Tax | Tax from PEs | Tax from PEs as percent of Indirect Tax |
|--------------------|---------------------|---------------------|--|
| 2061/62 | 41032.9 | 1331.56 | 3.26 |
| 2062/63 | 43462.3 | 185.89 | 0.43 |
| 2063/64 | 52146.4 | 1018.32 | 1.95 |
| 2064/65 | 62067.7 | 204.58 | 0.33 |
| 2065/66 | 81209.18 | 321.03 | 0.40 |
| Average | 52155.46 | 612.28 | 1.27 |

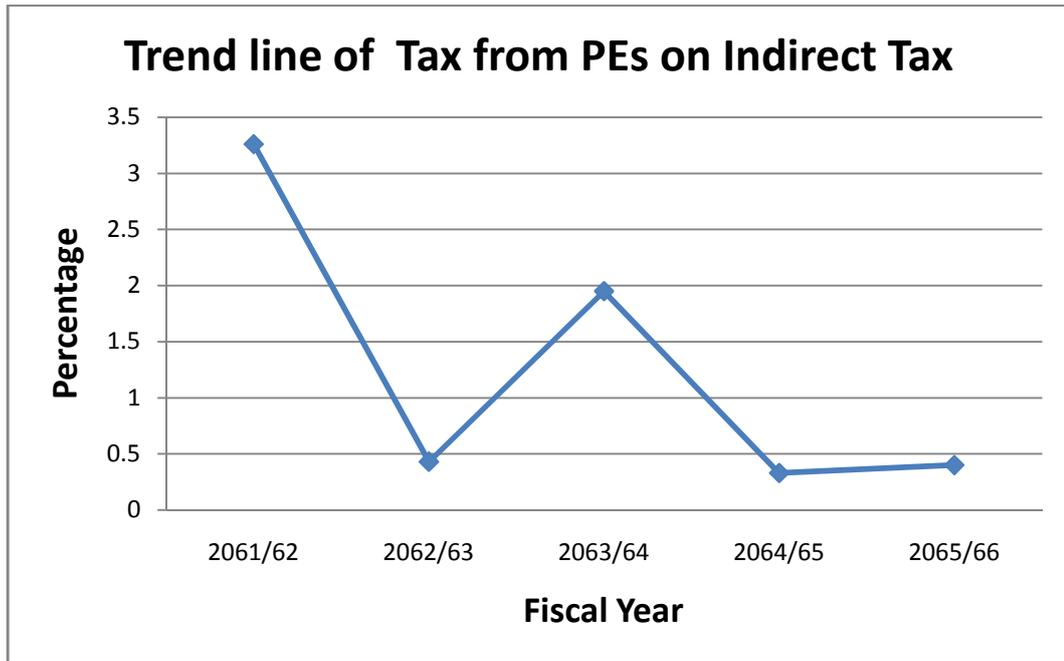
Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

The contribution of Income Tax from PES in Indirect Tax was presented in above table. The share of income tax from PEs in indirect tax was very low. The maximum and minimum contribution percentage of income tax from PEs in government revenue

was 5.67percent and 0.33percent in FY 2003/04 and 2064/65. The percentage of income tax from PEs in government revenue was in the fluctuating trend. The average percentage share of tax from public enterprises in indirect tax was 1.27 during the period of five years. It was shown in the below figure also.

Figure No: 4.18



4.1.12 Contribution of Income Tax from PEs to Total Income Tax of Nepal

Table No. 4.1.17

Contribution of Income Tax from PEs to Total Income Tax of Nepal (Rs. in Million)

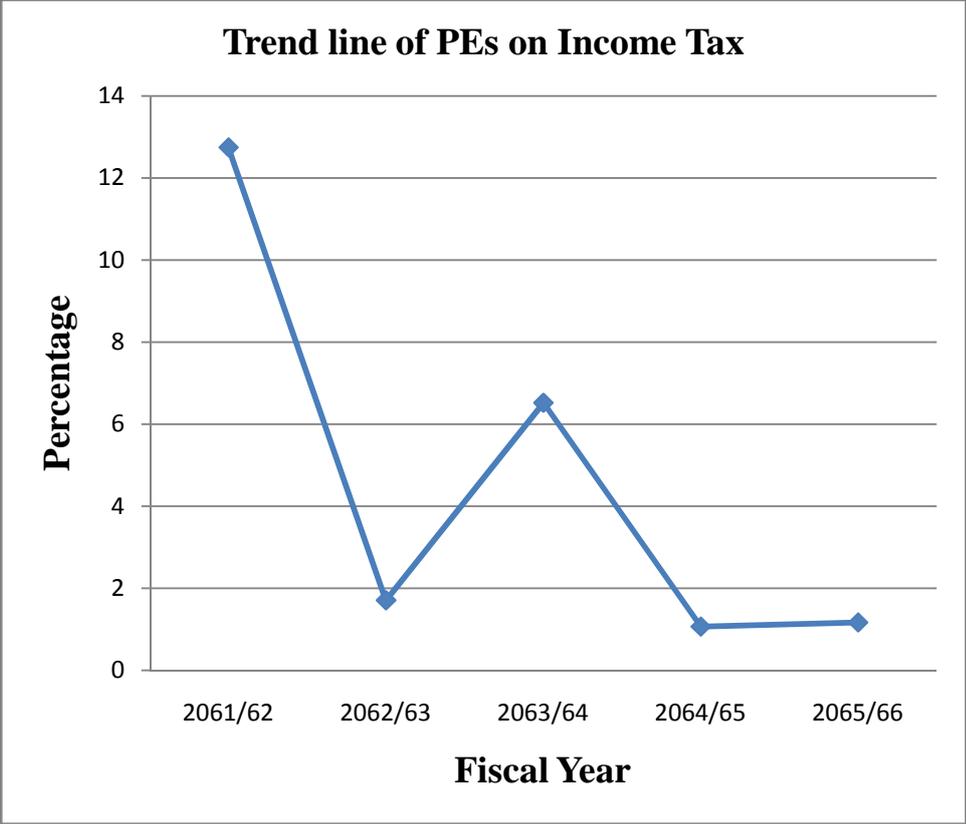
| Fiscal Year | Total Income Tax | Tax from PEs | Tax from PEs as percent of Income Tax |
|-------------|------------------|--------------|---------------------------------------|
| 2061/62 | 10452.64 | 1331.56 | 12.74 |
| 2062/63 | 10896.45 | 185.89 | 1.71 |
| 2063/64 | 15621.43 | 1018.32 | 6.52 |
| 2064/65 | 19077.81 | 204.58 | 1.07 |
| 2065/66 | 27547.79 | 321.03 | 1.17 |
| Average | 16719.224 | 612.28 | 3.66 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

The contribution of Income Tax from PEs in Total income tax revenue in Nepal was presented in above table. The percentage share of income tax from public enterprises in total income tax revenue was higher than the percentage share in GDP, government revenue, tax revenue, direct and indirect tax revenue. It was between 1.07percent and 12.74percent during the study period. The percentage of income tax from PEs in government revenue was in the fluctuating trend. Its share was 12.74percent in FY 2061/62 and reached to 1.17percent in FY 2065/66. The average percentage share of tax from public enterprises in income tax revenue was 3.66 during the period of five years. It was shown in the below figure also.

Figure No.4.19



4.1.13 Contribution of Income Tax from PEs to Corporate Tax of Nepal

Public enterprises were fully owned by the government but in semi public enterprises the government owns by major portion (51percent or more) public limited companies were established and managed by the owners. Tax collection from these sectors was known as corporate income tax. The following table shows the income tax collection from public enterprises.

Table No. 4.1.18
Income Tax from PEs on Corporate Tax
From F/Y 2003/04 to 2064/65

(Rs. in million)

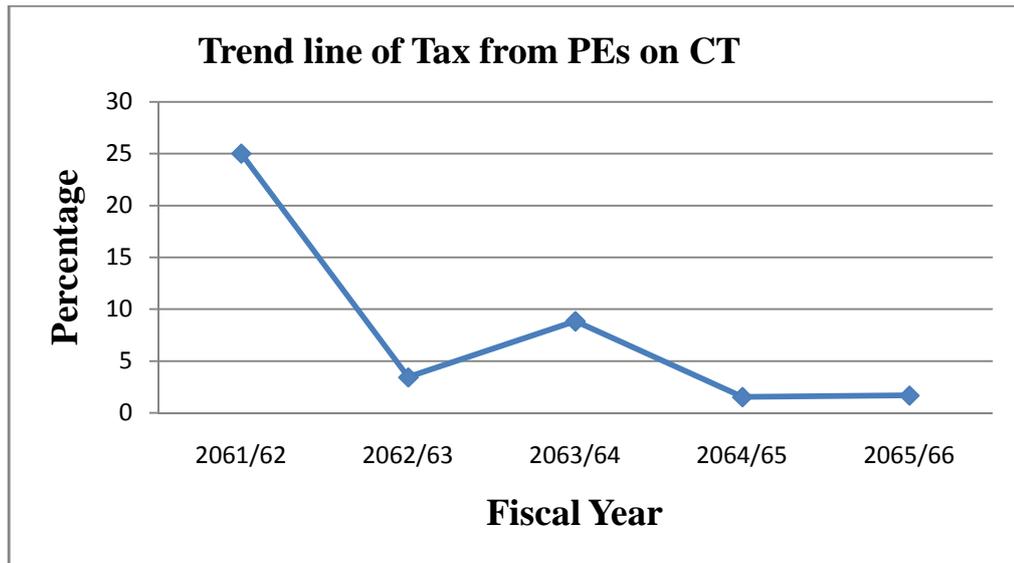
| Fiscal Year | Corporate Income Tax (CIT) | Tax from PEs | Tax from PEs as percentage of CT |
|--------------------|-----------------------------------|---------------------|---|
| 2061/62 | 5327.32 | 1331.56 | 24.99 |
| 2062/63 | 5398.70 | 185.89 | 3.44 |
| 2063/64 | 11515.84 | 1018.32 | 8.84 |
| 2064/65 | 13268.49 | 204.58 | 1.54 |
| 2065/66 | 18980.03 | 321.03 | 1.69 |
| Average | 10897.50 | 612.28 | 1.23 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

During F/Y 2061/62 the revenue from PEs was Rs. 1331.56 million then it was decreased to F/Y 2062/63 and reached Rs.185.89 in F/Y 2062/63. The amount of income tax from PEs was increased in 2063/64 and decreased in 2064/65 reached for Rs.204.58 and reached Rs. 321.03 in 2065/66 in the F/Y 2065/66. The share of CIT from PEs in indirect tax was very low. The maximum and minimum contribution percentage of CIT from PEs in government revenue was 24.99percent and 1.54 percent in FY 2061/62 and 2064/65. The percentage of income tax from PEs in CIT was in the fluctuating trend. The average percentage share of tax from public enterprises in corporate income tax was 1.23 during the period of five years. It was shown in the below figure also.

Figure No. 4.20



4.2 Resource Gap in Nepal.

Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty rapid population growth, aggressive dependence on agriculture, subsistence living standard etc despite over four year decades planed development efforts. In Nepal the resource mobilization is still poor that doesn't cover growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why; country in facing the burden of foreign loan widening trend of the different resource gap is shown in table 4.2.1

Table No. 4.2.1
Overall Resource Gap Pattern of Nepal
 (Rs. in Millions)

| FY | Total Expenditure (A) | Total Revenue (B) | Resource Gap 1 (A-B) | Foreign Grants (C) | Resource Gap 2 A-(B+C) | Foreign Loan (D) | Resource Gap3 A-(B+C+D) |
|---------|-----------------------|-------------------|----------------------|--------------------|------------------------|------------------|-------------------------|
| 2061/62 | 102560.4 | 70122.7 | 34437.7 | 14391.2 | 18046.5 | 9266.1 | 8780.4 |
| 2062/63 | 110889.2 | 72282.1 | 38607.1 | 13827.5 | 24778.9 | 8214.3 | 16564.6 |
| 2063/64 | 133604.6 | 87712.2 | 45892.4 | 15800.8 | 30091.6 | 10053.5 | 20038.1 |
| 2064/65 | 161349.89 | 107622.49 | 53727.4 | 20320.72 | 33406.68 | 8979.88 | 24426.8 |
| 2065/66 | 213578.35 | 142211.33 | 71367.02 | 34570.43 | 36796.59 | 10405.41 | 26391.18 |

Sources: 1. Ministry of Finance

2. Annual Report of IRD 2064/65

3. Economic Survey 2064/65 (www.mof.gov.np)

Resource Gap 1

The gap between revenue and expenditure rise from Rs 34437.7million in fiscal year 2061/62 to Rs 71367.02 million in fiscal year 2065/66 which is about two times than the fiscal year 2003/2004. This figure indicates the poor performance of domestic resource mobilization.

Resource Gap 2

This type of resource gap was Rs. 18046.5million for the fiscal year 2061/62 which was gradually increased to Rs 36796.59million in fiscal year 2065/66. The gap was maximized in fiscal year 2061/62 which was 2 times more than 2003/04 and it was due to low proportionate increment in foreign grants should be encouraged.

Resource Gap 3

This resource gap is taken as the different between total revenue plus foreign grants plus foreign loan. In the fiscal year 2061/62 the gap was Rs 8780.4 million which was increased up to Rs. 26391.18 in the fiscal year 2065/66 and it increased rapidly to Rs17610.78 million for fiscal year 2065/66 which was 3 times more than 2061/62. If any government has a resource gap it has to resent a deficit budget. There was a large portion of foreign grants to meet the budget deficit in recent year's budget. But in recent years percentage of foreign loans was increasing and percentage of foreign loans grants was decreasing which is not a desirable direction for our country in self reliance. Foreign loans creates extra burden to the economy. Thus foreign grants should be taken as a complementary resource to mobilization internal resource properly.

4.3 Empirical Investigation

An empirical investigation has been conducted for collecting data about opinions and attitude towards income tax and revenue collection of Nepal. An opinion questionnaire survey has been used as a major tool of this investigation. The questionnaire was distributed to the tax administrators' tax, exports and tax payers. Respondents are to feel more comfortable in filling the questionnaire out alone at their own choice of time. They are allowed to fill the questionnaire anonymously in seek of confidentiality. Only 64 responses have been received out of 75 questionnaire distributed.

Table No. 4.3.1
Group of Respondents

| S.N | Group of Respondents | No. of Questionnaire | No. of Respondents | Percent of Respondents | Code Used |
|-----|----------------------|----------------------|--------------------|------------------------|-----------|
| 1 | Tax Administrator | 25 | 20 | 80 | A |
| 2 | Tax expert | 25 | 25 | 100 | B |
| 3 | Tax payer | 25 | 20 | 80 | C |
| 4. | Staffs of PEs | 25 | 20 | 80 | D |
| | Total | 100 | 85 | 85 | |

Source: Opinion Survey

There are 80 percentage respondents from tax administrator; cent percent response come from tax expert, the response from tax payers is 80 percent and 80 percentage respondents from staffs of PEs. Altogether the response to the questionnaire is 90 percent.

The questionnaire is so designed the respondents are required red either to give yes/no answer or rank in accordance to the priority or give their opinion. In case of ranking, choices are designed weights according to the number of alternative provided. For example, if the alternatives were given to any question the first choice is given then points and the last choice gets one points. Non point is given alternative which is not chosen. The total points assigned to each alternative are converted into percentage. The alternative having highest percentage is ranked as the most important one having lowest percentage as the least important.

4.3.1. Satisfactory level of the revenue collection of the government.

In order to know if the people are satisfied the present level of revenue. Collection of Nepalese government, the first question is asked as "Do you believe that present revenue collection of the government is satisfactory"? This is yes/no type of question. The responses received are tabulated as below:

Table No. 4.3.2

Satisfactory level of the revenue collection of the government

| Respondents | Yes | | No | | Total | |
|-------------|-----|---------|-----|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent |
| A | 4 | 20 | 16 | 80 | 20 | 100 |
| B | 6 | 24 | 19 | 76 | 25 | 100 |
| C | 8 | 40 | 12 | 60 | 20 | 100 |
| D | 6 | 30 | 14 | 70 | 20 | 100 |
| | 24 | 28.50 | 61 | 71.50 | 85 | 100 |

Source: Opinion Survey

From the above table it is clear 28.50 percent respondents feel that the present revenue collection of government is quite satisfactory, 71.50 percent of respondent expressed dissatisfaction toward revenue collection of Nepal. So it can be concluded that the level of revenue collection of the government is not good and need to further improvement maximize revenue.

4.3.2. Satisfactory level of the revenue collection of PEs

To learn the attitude towards the revenue collection of PEs in Nepal. A question is asked "Are you satisfied with the present revenue collection of PEs in Nepal?" The result of questionnaire is tabulated as below.

Table No. 4.3.3

Satisfactory level of the revenue collection of PEs

| Respondents | Yes | | No | | Total | |
|-------------|-----|---------|-----|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent |
| A | 4 | 15 | 16 | 85 | 20 | 100 |
| B | 2 | 8 | 23 | 92 | 25 | 100 |
| C | 3 | 15 | 17 | 85 | 20 | 100 |
| D | 4 | 20 | 16 | 80 | 20 | |
| | 14 | 14.5 | 56 | 85.50 | 85 | 100 |

Source: Opinion Survey

From the above table it is clear 85.50 percent respondents feel that the present revenue collection of PEs is quite satisfactory, only 14.50 percent of respondent expressed dissatisfaction toward revenue collection of Nepal. So it can be concluded that the level of revenue collection of the PEs is not good and need to further improvement maximize revenue.

4.3.3. Satisfaction towards income tax system

To learn the attitude towards the income tax system of Nepal. A question is asked “Are you satisfied with the present income tax system of Nepal?” The result of questionnaire is tabulated as below.

Table No. 4.3.4
Satisfaction towards income tax system

| Respondents | Yes | | No | | Total | |
|-------------|-----|---------|-----|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent |
| A | 3 | 15 | 17 | 85 | 20 | 100 |
| B | 3 | 12 | 22 | 88 | 25 | 100 |
| C | 3 | 15 | 17 | 85 | 20 | 100 |
| D | 5 | 25 | 15 | 75 | 20 | |
| | 14 | 14.50 | 71 | 85.50 | 85 | 100 |

Source: Opinion Survey

It is clear from the above table that 85.50 percent respondents are unsatisfied with the present income tax system of Nepal and only 14.50 percent respondents are satisfied.

To know the cause of income tax system being unsound another question is attached along with this, "If not, what are the major problems in income tax system". The respondents are requested to rank their answers according to their priority. The breakdown of the despondence is shown below.

Table No. 4.3.5
Major Problems in Income Tax System of Nepal

| S. N. | Major Problems | Total Points received | | | | Total Points | percent | Rank |
|----------|---|-----------------------|-----|-----|-----|-----------------|---------|------|
| | | A | B | C | D | | | |
| (a) | Lack of good economic policy | 42 | 113 | 69 | 65 | 289 | 5.78 | 10 |
| (b) | Inefficient income tax administration | 45 | 198 | 201 | 180 | 624 | 12.48 | 3 |
| (c) | Complicated income tax, act, rate and exemption | 120 | 259 | 195 | 155 | 729 | 14.58 | 1 |
| (d) | Inappropriate rate and exemption limit | 35 | 98 | 117 | 105 | 355 | 7.10 | 8 |
| (e) | Difficulty in maintaining account for tax purpose | 41 | 57 | 102 | 100 | 300 | 6.00 | 9 |
| (f) | Lack of education in taxpayers | 153 | 206 | 155 | 160 | 674 | 13.48 | 2 |
| (g) | Lack of awareness in taxpayers | 137 | 197 | 113 | 155 | 602 | 12.04 | 4 |
| (h) | Lack of training and sufficient incentives to employees | 119 | 109 | 78 | 120 | 426 | 8.52 | 6 |
| (i) | Lack of experts in tax management | 76 | 98 | 121 | 115 | 410 | 8.20 | 7 |
| (j) | Practice tax evasion | 89 | 200 | 195 | 107 | 591 | 11.82 | 5 |
| Total | | | | | | 5000 | 100 | |

Source: Opinion Survey

In accordance to the preference of the respondents, the major problems of the income tax system of Nepal are ranked as follows:

1. Complicated income tax act, rules and regulations.
2. Lack of education to taxpayers
3. Inefficient income tax administration

4. Lack of awareness in taxpayers
5. Practice tax evasion
6. Lack of training and sufficient incentives to employees
7. Lack of experts in tax management
8. Inappropriate rate and exemption limit
9. Difficulty in maintaining account for tax purpose
10. Lack of good economic policy

From the above result, it can be concluded that the income tax system is not sound and satisfactory because of complicated income tax act, rules and regulations, lack of education and awareness in taxpayers and inefficient tax administration.

4.4.4. Satisfactory level of Corporate Tax Rate

Corporate tax rate plays vital role in income tax. It is clear that the corporate tax rate should be such which enables the government to collect more amounts for its revenue and provide incentives to invest corporate sector. Existing corporate tax rate in Nepal is 25Percentage whereas in the financial corporate sector it is 30Percentage. The question is asked as “Are you satisfied with the existing Corporate Tax Rate?” The table below shows the level of satisfaction of corporate tax rate.

Table No. 4.3.6
Satisfactory level of Corporate Tax Rate

| Respondents | Yes | | No | | Total | |
|-------------|-----|---------|-----|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent |
| A | 20 | 100 | 0 | 0 | 20 | 100 |
| B | 25 | 100 | 0 | 0 | 25 | 100 |
| C | 20 | 100 | 0 | 0 | 20 | 100 |
| D | 20 | 100 | 0 | 0 | 20 | 100 |
| | 85 | 100 | 0 | 0 | 85 | 100 |

Source: opinion Survey

100 percent responses were received from the respondents. The responses from the respondents it is clear that the existing corporate tax rate of 25Percentage is satisfactory and do not need to change it. Thus the conclusion can be drawn out that the corporate tax rate that is 25Percentage is appropriate.

4.5.5. Role of PEs to government revenue

To know what the role of PEs should be in government's revenue, a question was asked "What do you consider the role of PEs in government's revenue?" The responses are tabulated below.

Table 4.3.7
Role of Income tax in Government's revenue

| Respondents | Significant | | Moderate | | Insignificant | | Total | |
|-------------|-------------|---------|----------|---------|---------------|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent | No. | percent |
| A | 2 | 10 | 4 | 20 | 14 | 70 | 20 | 100 |
| B | 3 | 12 | 3 | 12 | 19 | 76 | 25 | 100 |
| C | 4 | 20 | 5 | 25 | 11 | 55 | 20 | 100 |
| D | 5 | 25 | 4 | 20 | 11 | 45 | 20 | 100 |
| Total | 14 | 16.75 | 16 | 19.25 | 55 | 64 | 85 | 100 |

Source: opinion Survey

From the opinion Survey, it was found that 10 percent of tax administrators, 12 percent of tax experts, 20 percent of tax payers and 25 percent of staff of PEs think that the role of PEs to be significant. 20 percent of tax administrators, 12 percent of tax experts, 25 percent of tax payers and 20 percent of staffs of PEs think it to be moderate and 70 percent of tax administrators, 76 percent of tax expert, 55 percent of tax payers and 45 percent of staffs of PEs think it to be insignificant. In total 16.75 percent of respondents consider the role of PEs to be significant, 19.25 percent respondents to be moderate and only 64 percent respondent consider the role insignificant. Thus it can be considered the role of income tax to be significant in government's revenue.

4.6.6. Specific goal of PEs in Nepal

To know what the specific goal of PEs should be in Nepal, a question was asked "What should be the specific goal of PEs in Nepal?" The responses are tabulated below.

Table No. 4.3.8
Specific goal of PEs in Nepal

| S.N. | Goals of PEs | Group | | | | Total Points | Percent | Rank |
|-------|---|-------|----|----|----|--------------|---------|------|
| | | A | B | C | D | | | |
| A | Increase the revenue of government | 42 | 49 | 39 | 45 | 175 | 11.67 | 6 |
| B | Reduce the gap between rich and poor | 52 | 55 | 75 | 43 | 225 | 15.00 | 5 |
| C | Promote private sector investment | 75 | 85 | 95 | 45 | 300 | 20.00 | 1 |
| D | Reduce unemployment | 68 | 82 | 79 | 49 | 278 | 18.53 | 2 |
| E | Utilization of natural resources | 55 | 88 | 68 | 39 | 250 | 16.67 | 4 |
| F | To provide qualitative goods and services in reasonable price | 44 | 75 | 85 | 68 | 272 | 18.13 | 3 |
| Total | | | | | | 1500 | 100 | |

Source: Opinion Survey

In accordance to the preference of the respondents, the specific goal of PEs in Nepal:

1. Promote private sector investment
2. Reduce unemployment
3. To provide qualitative goods and services in reasonable price
4. Utilization of natural resources
5. Reduce the gap between rich and poor
6. Increase the revenue of government

As stated by respondents other factors responsible for specific goal of PEs in Nepal. From the above analysis it is clear that promote private sector investment is the most important goal of PEs in Nepal. It is also an important factor to reduce the gap between poor and rich.

4.4.7. Satisfactory level of the revenue collection of PEs to Tax revenue

In order to know satisfactory level of the revenue collection of PEs to Tax revenue, a question was asked, “In your opinion is contribution of PEs to Tax revenue of Nepal satisfactory.” The responses of the respondents are presented below.

Table No. 4.3.9

Satisfactory level of the revenue collection of the PEs to tax revenue

| Respondents | Yes | | No | | Total | |
|-------------|-----|---------|-----|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent |
| A | 4 | 20 | 16 | 80 | 20 | 100 |
| B | 6 | 24 | 19 | 76 | 25 | 100 |
| C | 8 | 40 | 12 | 60 | 20 | 100 |
| D | 6 | 30 | 14 | 70 | 20 | 100 |
| | 24 | 28.50 | 61 | 71.50 | 85 | 100 |

Source: Opinion Survey

From the above table it is clear 28.50 percent respondents feel that the revenue collection from PEs to of tax revenue is not satisfactory, 71.50 percent of respondent expressed dissatisfaction. So it can be concluded that the level of revenue collection of the PEs to Tax revenue is not good and need to further improvement maximize revenue.

4.4.8. Effectiveness on imposing fine and penalties of PEs

In order to know the effectiveness of PEs to impose fines and penalties in Nepal, a question was asked, “Do you think that the PEs of Nepal is effective to impose fines and penalties as when required?” The responses of the respondents are presented below.

Table No. 4.3.10
Effectiveness on imposing fine and penalties of PEs

| Respondents | Yes | | No | | Total | |
|-------------|-----|---------|-----|---------|-------|---------|
| | No. | percent | No. | percent | No. | percent |
| A | 3 | 15 | 17 | 85 | 20 | 100 |
| B | 3 | 12 | 22 | 88 | 25 | 100 |
| C | 4 | 20 | 16 | 80 | 20 | 100 |
| D | 6 | 30 | 14 | 70 | 20 | 100 |
| | 10 | 19.25 | 71 | 80.75 | 85 | 100 |

From the above table it has been clear that most of the respondent’s i.e. 80.75Percentage thought that PEs in Nepal is not effective to impose fines and penalties. Only 19.25Percentage of the respondents thought that PEs in Nepal is effective to impose fines and penalties. Most of the staffs of public enterprises were in favors of effective tax administration to impose fines and penalties as they didn’t want to show their weakness. Thus it can be concluded that the PEs of Nepal is not effective in imposing fines and penalties.

In order to know the cause of ineffective on imposing fines and penalties by PEs, the next question was asked. “If No what are the reasons.” The respondents were requested to rank their answer, which is presented in the following table.

Table No.4.3.11**Reasons of Ineffective Tax Administration to Impose Fines and Penalties**

| S. N. | Reasons | Group | | | | Total Points | Percent | Rank |
|----------|---|-------|----|----|----|-----------------|---------|------|
| | | | | | | | | |
| a) | Corruption | 48 | 55 | 60 | 27 | 190 | 19 | 1 |
| b) | Lack of information | 37 | 43 | 52 | 28 | 160 | 16 | 3 |
| c) | Lack of competent staff | 28 | 42 | 32 | 78 | 180 | 18 | 2 |
| d) | Complicated tax law | 35 | 28 | 48 | 44 | 155 | 15.50 | 4 |
| e) | Unnecessary Political parties pressure | 25 | 28 | 32 | 35 | 120 | 12 | 5 |
| f) | Lack of Co-operation in Tax administration | 22 | 36 | 22 | 27 | 107 | 10.70 | 6 |
| g) | Lack of logistic support | 17 | 27 | 25 | 19 | 88 | 8.80 | 7 |
| Total | | | | | | 1000 | 100 | |

Source: Opinion Survey

The causes of ineffectiveness to impose fines and penalties by PEs in order of the preference of the respondents are as follows.

1. Corruption
2. Lack of competent staff
3. Lack of information
4. Complicated tax law
5. Unnecessary Political parties pressure
6. Lack of Co-operation in tax administration
7. Lack of logistic support

It can be concluded that corruption, lack of competent staff, complicated tax law and lack of information is the most important causes of ineffectiveness of PEs in Nepal to impose fines and penalties.

4.4.9. Major problems on effective works on PEs

In orders to find out the views towards the major problems on effective works on PEs, a question is asked "What are the major problems on effective works on PEs?" The Reponses are tabulated as below:

Table No. 4.3.12

Major problems on effective works on PEs

| S.N. | Problems on effective works on PEs | Group | | | | Total Points | Percent | Rank |
|------|--------------------------------------|-------|-----|-----|-----|--------------|---------|------|
| | | A | B | C | D | | | |
| A | Instability on political environment | 32 | 35 | 18 | 40 | 125 | 17.86 | 2 |
| B | Unable on works of CEO | 21 | 19 | 18 | 17 | 75 | 10.71 | 7 |
| C | Corruption | 38 | 43 | 41 | 18 | 140 | 20 | 1 |
| D | Over no. of BOD | 19 | 23 | 27 | 16 | 85 | 12.14 | 5 |
| E | Overstaffing | 21 | 27 | 32 | 15 | 95 | 13.57 | 4 |
| F | Lack of R&D | 27 | 32 | 11 | 30 | 100 | 14.29 | 3 |
| G | Lack of proper planning | 21 | 24 | 9 | 26 | 80 | 11.43 | 6 |
| | Total | 179 | 203 | 156 | 162 | 700 | 100 | |

Source: Opinion Survey

In accordance to the preference of the respondents, the major problems on effective works on PEs of Nepal are ranked as follows:

1. Corruption
2. Instability on political environment
3. Lack of R&D
4. Overstaffing
5. Over no. of BOD

6. Lack of proper planning
7. Unable on works of CEO

4.4.10. Suitable Tax Rate in Nepal

In order to find out the suitable income tax rate system in Nepal, respondents are requested to select any one among the three alternatives. The question is "In your opinion, which income tax rate is suitable for Nepal?" The responses are tabulated as below:

Table No. 4.3.13
Suitable Tax Rate in Nepal

| S. N. | Measures | Tax Administrators | Tax Experts | Tax Payers | Staffs of PEs | Total | Percent |
|-------|--------------|--------------------|-------------|------------|---------------|-------|---------|
| 1 | Progressive | 15 | 18 | 19 | 18 | 70 | 83.33 |
| 2 | Proportional | 3 | 7 | 2 | 2 | 14 | 16.67 |
| 3 | Regressive | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | | | | | 84 | 100 |

Source: Opinion Survey

From the above table, it is clear that 83.33 percent of respondents preferred progressive income tax rate in Nepal. So, it can be concluded that progressive tax rate is most suitable means of tax rate in Nepal because Nepal is a poor and undeveloped country where all the person income status is not same. Progressive is the method where tax is collected according to the income.

4.4.11. Suggestion from the respondents

The last questions are asked to give suggestion from the respondent for the improvement and effective tax system in Nepal. Some of the suggestions provided by the respondents are as follow:

1. The PEs should be done the works on planning and use the amount on research and development.
2. The government should give the rebate in public enterprises.
3. The Inland Revenue department should make offer to educate the tax payer and tax personnel.

4.4 Major Findings

4.4.1 Findings from secondary data

1. Overview the current revenue structure of Nepal, the share of tax revenue has been greater than share of non-tax revenue. The average ratio of tax revenue to total revenue is 79.81 percent and non-tax revenue to total revenue is 20.18 percent.
2. This is dominant role of indirect tax revenue in Nepalese tax structure. The contribution of indirect tax was 57.10 percent and 61.41 percent to total revenue and total tax revenue respectively in FY 2065/66. The contribution of direct tax was 25.10 percent & 30.59 percent to total revenue and total tax revenue respectively in FY 2065/66. This figure structure is not justifiable on equity ground and progressive because indirect tax is considered regressive nature. The average ratio of direct tax is Rs.21.24 million and Rs. 26.57 million and the average ratio of indirect tax is Rs. 58.87 million and Rs. 44.97 million to total revenue and total tax revenue respectively.
3. Income tax can be taken as better source of government. To develop the economic condition of Nepal and promote distributive justice and came resource gap problem.

4. Income tax composed of tax revenue from corporate bodies, individuals, remuneration, investment and others. All those contributions were fluctuating in trend and corporate bodies are the better sources of Income tax. The average tax collection from income tax is Rs.62.54 million.
5. The contribution of CT to government revenue was 13.35 percent in FY 2065/66 which was increasing in trend during 5 years study period. The contribution of public bodies is the highest in the corporate tax and lowest is public enterprises due to the unfriendly business environment entrained by political and economic condition of the country. So, government was give more attention form development of corporate sector and formulate the plans and polices in favorable to corporate sector. The average contribution of CT to government was 10.77 percent in FY 2065/66.
6. The contribution of PEs to GDP, government revenue, direct tax, indirect tax, tax revenue, income tax and corporate income tax were very poor during 5 years study period. It may be political influence, economic condition of country of our country and the major problem were to employee not doing work properly and corrupted management and employees and the lack of research and development.
7. Government revenue is not sufficient to cover the growing expenditure in Nepal so resource gap is widening Resource gap is considered as never ending problem of Nepalese economy. Resource gap was increasing trend every year and Rs.26391.18 millions in FY 2065/66 overall resource gap. Government revenue is not sufficient to cover the growing expenditure in Nepal so resource gap is widening.

4.4.2 Empirical Findings / Findings from primary Data

1. The present level of revenue collection of the government is not satisfactory and present level of revenue collection of PEs is no satisfactory so government should make proper planning with respect to PEs.
2. Income tax is a suitable source of mobilizing domestic resources. Main reason behind this is that it is harmful to depend fully on external sources.
3. Existing corporate tax rate has been found suitable and single rate for all types of corporation is preferred.
4. The contribution of PEs to tax revenue is not satisfactory.
5. The public enterprises established and all the works were conducted by the government. From the above research it can be said that there was too much corruption, lack of planning and research and development, political influence, overstaffing, lack of commitment on works in staffs.
6. The government had to promote on utilization of resources and promote the private sector to invest on different sector,
7. The government had charges 25 percent tax on corporate bodies. To increase the revenue collection PEs their must be given rebate on tax rate and they can be utilize remaining amount in different resources.
8. The contribution of PEs was in decreasing in trend due to different factors like not paying the amount of bills of electricity, telephone bills and fuels by the government offices. Not making proper rules and regulations by the government which was needed in 21st century.
9. Progressive income tax rate is considered as the suitable means of tax rate in Nepal.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

This Chapter shows the final report of the study. The chapter is divided into three parts. The first part deals with the Summary, the second with the Conclusions of the study and the third deals with the Recommendations. The details of the Chapter are presented below:

5.1 Summary

In each country, a lot of fund is spent by the public authority for the protection of common people and for the creation of protection of common people and for the creation of various socio-economic, infrastructures. Protection expenditure includes the purchase of arms and ammunition, army and police expenses and administration of joints. The government activities are increasing day by day, because of demand of time, increasing price and national income. Government needs more money to run it successfully. The government collects revenue from various sources such as tax revenue from public enterprises, social assessment, fee, fine, grants and assistance, income tax from other sources etc. Among them, tax is the main source of government revenue.

Nepalese are always facing with financial problems every year. There is serious problem of resource gap which is in increasing trend. In Nepal, government accumulates required fund mainly from internal and external sources to finance regular and development expenditure. Because of the inadequacy of the internal sources for development of the nation, Nepal comes under compulsion to relay on foreign loan and grants.

Nepal has been unable for proper mobilization of internal sources. Therefore, fiscal deficit of Nepal has been increasing. Among the internal resources, income tax is pivotal one. Income tax should play important role to solve the problem of fiscal deficit. But, in Nepal, actual collection of revenue through income tax is lower than its estimated forgoes in previous fiscal year. It is so because of the poor taxpaying habit of Nepalese taxpaying, poor tax administration system and wide spread evasion of income tax. Income tax is a direct tax. It is annual tax charged by the government at the rate prescribed in income tax Act.

Nepal is one of the underdeveloped countries; it is still in its very slow move to industrial development. So, in Nepal, public enterprises are not matter of choice, rather, they are a matter of necessity. In various sectors of economy, private sector has not come forward or has only in limited existence.

The contribution of tax from PEs plays an important role for the development of national economy and to raise the government revenue requirement like poor country Nepal. Besides income tax, PEs have contributed through export promotion, strengthening the revenue generation of Nepal Government, import substitution and saving of foreign currency by reducing import as well as to providing consumable goods and services at a reasonable price.

Contribution of tax form PEs to government revenue was decreasing in ordering and reached percent in 2065/66 and Contribution of tax form PEs to tax revenue was decreasing in ordering and reached percent in 2065/66.

The main objectives of the present research were to the structure of government revenue and contribution from PEs to tax revenue in Nepal. As per the nature of the study, secondary as well as primary data and in the nation were collected, tabulated and analyzed. Descriptive and analytical research designs have followed in this study. The sources of primary data were from the analysis of respondent's responses with selected 85 respondents representing tax officers, tax experts/policy makers, taxpayers and staffs of PEs .Questionnaires were distributed and collected and information obtained from questionnaires was also been tabulated as per the requirement of the study. The secondary data were collected from IRD, Finance Ministry and economy survey of various years. These data and information were tabulated and analyzed as per the requirement of the research study.

5.2 Conclusion

In developing countries like Nepal, lack of sufficient resource is the main constraint for the national economic development. For the developing activity government need sufficient resources and funds. Because of stability and of democratic government, the overall economic activities gradually. Shrunk and suffering from capital growth. There is a sharp rise in the current expenditure of the Nepalese government. Due to the low revenue growth and institutional weakness, there is lack of adequate resources for capital expenditure. 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 on internal resources. This fiscal deficit of Nepal has been increasing.

To solve the fiscal deficit, tax revenue should play an important role. Tax revenue is the main source of government revenue. In this regard; it is needed to raise the tax revenue by widening the tax base, refining the tariff structure at regular intervals. This contributes to more revenue mobilization. But in Nepal, the tax system has not been mobilized properly.

In Nepal, the income tax system has undergone considerable change since its introduction in 1959. Several changes regarding its type, coverage, rates, allowed tax unit, tax assessment and so on. The income tax act introduced a preventive income tax in 1962.

The ratio of tax from PEs to GDP, government revenue, total tax revenue, direct tax, Income tax, corporate tax revenue ratio were 0.26 percent, 1.9 percent, 2.46 percent, 10.19 percent, 12.74 percent and 12.74 percent respectively in fiscal year 2061/62 and this ratio was 0.0088 percent, 0.23 percent, 0.27 percent, 1.53 percent, 1.17 percent, 1.69 percent respectively in fiscal year 2065/66.

There is a poor taxpaying habit among Nepalese people. Basically, due to lack of incentives for regular taxpayers, defective tax administration system and complexity of tax laws and policies.

There are incentives for income tax administration in Nepal. Due to the lack of trained and competent personnel, complicated tax laws and policies, lack of proper communication and direction, corruption, lack of public participation, lack of coordination within the Revenue Department.

The most important objectives of tax imposition on PEs are to meet the revenue requirement of government and to re-distribute the national income. There is an unsatisfactory contribution of income tax from PEs to government revenue. Poor performance of public enterprises, overstaffing, political pressure and high corruption

in public enterprises are the most important causes of unsatisfactory contribution of income tax from PEs to government revenue.

PEs is facing various problems regarding to income tax system, due to lack of clear act, rules and regulations, inefficient tax administration and heavy fine and penalty.

The Nepalese tax administration has been attempting to modify itself to meet the pressing global challenges brought about by change in technology and economic policies. But working procedures and procurements are not change. They can not change their traditional working habit and views like “RAJAKO KAM KAHILE JALA GHAM.” Due to this the cost of administration has not been brought to the satisfactory level corruption in tax administration is big problem in Nepal. Lack of accountability in PEs is another serious problem.

5.3 Recommendations:

Based on the major conclusions in this study, same recommendations are explained below. These recommendations will certainly be proved milestone to overcome existing issue in this field. This thesis also opens new topics to all prospects researchers. The researcher was able to gain lots of experience through this thesis. This type of thesis helps to build up confidence of the researcher.

1. The government should increase the base of tax but not tax rate to increase the government revenue
2. The government should provide incentives for regular tax payers and they should be awarded.
The regular taxpayer should get benefit from government.
3. The government should pay due respect to regular tax payers and create awareness and willingness to pay tax.
4. A national wide campaign should be launched to explain laws, tax program and benefits of tax with a view of stimulating dynamic participation of the public in order to pay taxes through

media of radio, television, newspapers and speech programmers in the educational institutions and society.

5. The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficial to the people.
6. Income tax management has lengthy process of income tax assessment. The taxpayer never wants the lengthy and time consuming process of assessment. That is why, management has to try to make it faster and short process of income tax assessment.
7. To solve the problems existed in Nepalese income tax system, the following recommendations are made:
 - Income tax act, rules and regulation should be clear and simple for all the taxpayers as well as for tax officers and tax inspectors.
 - There should be appropriate, adequate economic policy and efficient income tax administration.
 - The tax evasion should be minimized and government should reduce the poverty.
 - Training and management development programmed should be conducted regularly. The personnel should get incentives.
 - Different motivational tools should be used to motivate personnel and taxpayers. Exemptions limit should be made more effective.
8. The following recommendations suggested increasing the taxpaying habit of Nepalese people.
 - Proper tax education to taxpayers should be provided.
 - The tax administration system should be effective and tax laws and policies should be clear.
 - Government should provide awards and re-organization to regular taxpayers.

- Public participation and involvement should be increased to prepare tax laws and regulations.
- Transparency in tax payment should be most necessary. Government should provide regular information about payment of tax,
- There should be heavy penalties and fines to irregular taxpayers.

9. The following recommendations are made to improve income tax administration.

- There should be proper co-ordination and communications system within the Revenue Department, Inland Revenue Department and Revenue Officers, Revenue officers and taxpayer.
- The assessment should make easier and faster.
- Proper direction and communication should be provided to taxpayers and officers.
- Personal management should be made more effective.

10. The following recommendations are made to make satisfactory contribution of tax from PEs.

- There should be proper responsibility and accountability.
- The management of PEs should be responsible to failure of public enterprises. They should be punished when they can not meet targets and they should be awarded when they achieve success.
- There should be clear responsibility centre.
- The management team should be appointed among the professional but not from political persons.
- They should be free from political pressure to make the decision.
- There should be better performance of PEs.
- Weaknesses of government economic policy should be avoided.
- Corruption should be minimized in PEs.

- Overstaffing should be reduced to proper size.
 - There should be needed proper planning and use the manpower on research and development in PEs.
11. The following recommendations are made to solve the problems faced by PEs regarding income tax system.
- Income tax administrations should be efficient.
 - Income tax act, rules and regulations should be made clear and simple.
 - Income tax assessment process should be made easy and fast.
 - Income tax imposition as PEs should be reduced.
 - Corrupted tax officers should be punished.
12. The role of information is important to the success of tax administration, information collection should be consolidated. Intra-Department as well as Inter-Department networking at least among the departments within the MOF should be established at the earliest. The scope of PAN should be expanded to cover such things as purchases and sale of land and vehicles etc.
13. The mismanagement in PEs proved burdensome to the treasury, as a large portion of the taxpayer's money required to be siphoned off to give new lease of life to such badly managed properly. PEs, which have the dismissal performance and near bankruptcy situation should be restructured or privatized.

In Nepal, income tax system is facing a lot of problems. If above mentioned suggestions and recommendations are managed in time and implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue. The resource gap should be minimized.

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