

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

The Nepalese economy is an agro-based developing economy. The agricultural sector provides employment to nearly about 91.1% of the total population. The output per head in the agricultural sector is very low in comparison to that of developed countries. The balance of payments is not favorable in every year because import of goods is higher than export of goods. It has also been commonly known that the gap between expenditure and revenue that is called "resource gap" which is increasing in each year.

Therefore, the resource gap has been a serious bottleneck in the process of economic development of developing countries like Nepal to raise government revenue.

In the modern age, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other activities. Every nation desires to improve its current status through proper utilization of resources. The government receipts may take form of taxes and fees, borrowings, grants and loans as external source. Such amounts of funds are spent in maintaining security and peace in the country. It includes the purchases of arms, ammunition, maintenance of army and police administration. The Government also spent its funds for fulfilling the basic needs of people, such as health, communications, drinking water and other public utility and facilities etc. Similarly government has to spend in development of socio-economic infrastructure which facilities to promote the private sector. The total prosperity of the nation can be achieved through the equal participation of private sector in development activities.

The Government needs huge amount of funds, which can be mobilized through two sources internal and external. Developing countries, like Nepal, have limited source of internal funds so most of the development activities depends on the external sources. The external sources financing are bilateral and multilateral grants, loans from foreign countries and fund from donor agencies. These sources have been limited, inconvenient and not suitable to boost up Nepalese economy due to the vested interest of the programs and policies of the donor country, agencies and need to pay high interest accepting the inappropriate conditions to take the loan.

In the modern world, taxation has been taken as the most effective tool for rising national revenue. The Government by mobilizing adequate resources through taxation might invest them in various development programmes. In this way, in the underdeveloped countries the government might play an important role in promoting capital information, breaking the vicious circle of poverty and by mobilizing adequate resources through taxation.

Mobilization of maximum resources through income tax can be done either by increasing present income tax rates on removing income tax evasion. Increasing the present income tax rate will not be the permanent solution. The taxable capacity of Nepalese people is very low. In such a situation the government should be too cautious before raising the rate of existing taxes in the country.

Country uses borrowings to raise the necessary public funds which are not good for the economic development of the nation. The government has to impose higher tax to repay the interest and Loan. Generally speaking, resources of public revenue taxes are better than borrowing because it is merely transferring of funds to public treasures.

According to Goode "A tax is a compulsory contribution to government revenue without reference to a particular benefit recovered by tax payer. It is a personal obligation to pay tax and there is no direct relationship among tax, benefit and individual tax payers."

"Taxes is a compulsory payment by the people to the nation. If a person defies the payment of tax, he is punished by court of law," (Lekhi, 2002, p. 162).

According to Adam Smith, A tax is contribution from citizens for the support of the state. The primary purpose of the taxation is to direct control of economic resources from tax payers to the state for its own use of transfer to others, bringing about economic growth, elasticity in the tax structure, control of the internal pressure and reduction of inequality are the main objectives of tax policy.

The Great Britain was the first country that introduced modern income tax in 1799 to collect revenue to finance the war expenses. In 1862, the United States of America (U.S.A) introduced income tax to generate revenue to finance for civil war. The Federal corporate income tax was introduced in 1909. In India, modern income tax was adopted in 1960. In Nepal, income tax was introduced in 1959. Both individuals and companies were taxed in

similar way during the earlier period but later as companies were levied with a flat rate and individuals with progressive rates.

The present study has been designed to study the contribution of income tax from public enterprises to government revenue of Nepal. PEs play catalytic role in social and economic development process of nation. In Nepal after the down of democracy in 1951, there emerged an environment in which the needs and aspirations of the people were given primary. Accordingly, Nepal Government has limited a system of establishment and functioning of PEs with huge investment for economic development. PEs highly contribute in national exchange by various ways i.e. direct participation in the production of goods and services for income generation including income tax .Although being a public utility enterprise, NTC is capable to establish itself as a business firm. It can successively implement its objectives and plans. Among the government revenue contributors, NTC has been taking top most places. NTC contributes to the government by various taxes i.e. income tax , value added tax, vehicle tax ownership tax, etc. Income from NTC is increasing every year from the adoption of new technology in the field of communications.

## **1.2 Focus of the Study**

Revenue structure of Nepal mostly depends on the foreign assistance and loan but it is unfavorable to the country being developing country, sources of public revenue are very limited in Nepal. Domestic resources are reliable sources to keep minimum dependency of foreign aid and loan. Taxation is a major device for mobilizing of internal source. It is considered as the most effective and reliable instrument for balanced economic development and maintaining economic stability.

- This study has attempted to highlight the real situation and contribution of income tax in National Revenue of Nepal.
- Analyzing problems and prospects raised by newly implemented Income tax Act 2058.
- Structure of income tax in Nepal.
- Income tax administration in Nepal.
- Contribution of income tax from NTC to government revenue.

### **1.3 Statement of the Problem**

Without financial resources, domestic resources can not 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 the gap of resource mobilization. At present, Nepalese tax system is facing several problems such as tax evasion, poor tax administration and unsound income tax collection. Because of the tax evasion habit of Nepalese people, role of PEs towards income tax revenue is very justiable. Income tax should be adopted as a fiscal instrument in government revenue which helps to achieve the goal of national development. But the majority of PEs is unable to deliver their expected services. Productivity and returns are very poor. Financial positions of PEs are unsatisfactory and is likely to become an increasing burden to the government. They cannot even maintain their books of accounts, unaudited financial statement, intention to hide their ability to pay tax, low level of morale and honesty etc.

The problems of the study are defined in the following questions;

- Which tools of the tax planning are mostly practiced?
- What are the major difficulties in the application of tax planning tools?
- What is the resource gap pattern of Nepalese government?
- What is the income tax structure of Nepal?
- What is the contribution percentage of income tax of NTC to government revenue? Is it supporting to fulfill the resource gap?

### **1.4 Objectives of the Study**

This study has been carried out with some objectives. The main objective of the study is to analyze the effectiveness of income tax on revenue generation in Nepal and give appropriate suggestions to improve the tax system so that the government can collect more revenue and use it in the way of economic development of the country. The specific objectives of this study are as follows.

- To study and extract the role of income tax in utilizing the resources in Nepal.
- To analyze the income tax structure of Nepal.

- To analyze the contribution of income from public enterprises to government revenue of Nepal.
- To analyze the contribution of income tax from Nepal Telecom to government revenue.
- To provide valuable suggestions and recommendations for efficient implementation and improvement of tax in Nepal with reference to NTC.

## **1.5 Significance of the Study**

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

Nepal can fulfill its financial needs by increasing its revenue through income tax earnings. The contribution of PES towards income tax revenue should be increased. It provides information on about income tax revenue collection from public enterprises and also provides information about income tax revenue collection from Nepal Telecom.

This study has been significant for the following groups and individuals.

- It provides the literature to the researcher who wants to carry on future research in this field.
- It has been useful for personnel's and customers of Nepal Telecom.
- It examines the application of tax planning tools in Nepal.
- It explores the problems and potentialities of Nepal Telecom.

Therefore, this study not fulfills the gap but also provides the knowledge of tax planning system.

## **1.6 Limitations of the Study**

The present study is not free from the limitations. Although efforts have been made to make this study more realistic, practicable and informational for all the people, the study is suffering from the number of limitations as follows.

- This study is mainly based on secondary data.
- The study is focused on the Nepal Telecom only. So, the findings might not be applicable to other public enterprises.
- The study has been conducted in a year. So there is a limitation of time.

## **1.7 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 limitations of the study.

### **Chapter -2 Review of literature**

This Chapter has included two main aspects Conceptual frame work and Review of related studies. It includes review of thesis, books, articles and reports with findings and recommendations.

### **Chapter -3 Research Methodology**

This Chapter deals with research methodology adopted for study consisting research design, population and sampling, sources of data, data collection procedure, data analysis procedure and uses of tools for analysis

### **Chapter-4 Presentation and Analysis of Data.**

This Chapter is concerned with systematic presentation, analysis and interpretation of data various financial and statistical tools and techniques have been used. This Chapter also focuses open-end options and main findings of the research.

### **Chapter - 5 Summary, Conclusion and Recommendations.**

The final Chapter has devoted to summarize the whole study and conclusion was drawn based on the major findings. Recommendations have also presented.

At last, Bibliography, Appendix and other supporting documents are enclosed.

## **CHAPTER 2**

# **REVIEW OF LITERATURE**

## **2.1 Introduction**

Review of literature is an essential part of all studies. It establishes a point of departure for future research. The purpose of reviewing the literature is to develop some expertise in one area to see what new contribution can be made, and to receive some ideas for developing a research design. Thus, the previous studies have been consulted. The relevant findings, issues, arguments and suggestions are included to go further in depth of the study. In other words, there has to be continuity in research. This continuity in research is insured by linking the present study with the past research studies.

## **2.2 Review of theoretical concept**

### **2.2.1. Concept of tax**

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

Taxes are compulsorily levied on individuals, firms, companies and other units for government purpose – government personnel's with authority assigned by different laws generates some funds from individuals, firms, companies and other units, which are generally termed as taxes. According to classical economist "state"

According to classical economist Dalton, A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service reserved to the tax payer in return and not espoused a penalty for any legal offence.

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



In the modern world, whether it is a developed or developing country, income tax is regarded as the most important instrument for the internal source mobilization of the country. Income tax is the most important source of revenue in developed country but contribution of income tax is low in developing countries. The popularity of income tax is growing much more in developing countries.

In Nepal, income tax is defined as the tax levied on net income derived after deducting all allowable deductions and relives from the total income. Income tax is always levied on net income i.e. total income less the allowable deductions.

“Taxes are what we pay for civilized society” (Holmes as cited in Kenneth, 2005, p. 72) Income tax can be classified into two types: Personal/ individual income tax and corporate income tax, Individual income tax is modeless tax which is measure of ability to pay of any individual. It is based in progressive rate. Corporate income tax is levied on business enterprises having a legal personality, distinct from their owners. Generally flat rate is applied to corporate income tax.

## **2.3 Review of historical background of taxation in Nepal.**

Tax has been one of the major sources of nation. In ancient days, tax was collected in the form of cash, kind and labor from the merchants, travelers and farmers. However, the nature of tax levied by the government was temporary type in the old age. In the Lichchhavi regime (Known as golden era) tax was known as "triker" which meant three kinds of taxes viz. "Bhaga" "Bhoga" and "Karo". The bhaga tax was levied on agriculture, Bhoga was on animal and karo was on business income. These taxes were introduced as direct taxes for the first time in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and 1/12 shares of production depending on the quantity of the land possessed by them. All artists had to donate labour compulsorily as the tax payment.

### **2.3.1 Taxation had a board sense in the unified Nepal.**

During the period certain improvement was made in the taxation system. At that time, revenge maximization was the main objective of the tax policy, Land tenure system was

divided into five main forms: Raiker, Birta, Guthi, Seva and Kipat. At that period, tax was collected from three levels: Royal palace, central government and local authorities. They collected cash or goods from tax payers as taxes Royal palaces had levied taxes. The government had levied taxes like Dharsan bhet and Salami and local authorities had levied taxes on forest and water sources, commercial taxes like customs, transits and market duties, mines and mints, export of forest product like herbs, drugs, wild life birds, elephants and judicial fines. Taxes from land and business were type of direct taxes.

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

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

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

Taxes were charged according to the will of the Rana Prime Minister. Both the incomes as well as expenditure of the government were confidential in actual practice; no difference existed between the private purpose of the ruling minister and the government treasury. Therefore, the income and expenditure were not transparent because there was no practice of presenting the budget in the period. Rana Prime Minister levied taxes for meeting specific expenditure of the royal house land or extra ordinary expenditure necessitated by war or other crises rather than regular mobilizing revenue in the nation. During Nepal - Tibet War (1855/56), the first Rana Prime Minister Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsar imposed a levy of 1% on the official value of Jagir assignment of government employee in 1891 to finance the transportation of water pipe

supply in the capital. Another Rana Prime Minister Ranoddeep Singh imposed a 50% tax on the income made by fisherman in Deckchai from the sale of fish in 1882.

### **2.3.3 Income tax in Modern Nepal**

After the democracy of the country in 1951, the role of government has drastically changed. The government was enforced to perform the development activities under besides regular functions. So, it was realized to impose tax on business profit and remuneration. Consequently, Finance Act 1959 was passed in 1960 (2017). A Formal Income Tax Act (ITA) was enacted in accordance with the provision of Finance Act, 1959 for the first time in Nepal. In three years experience, the Business Profit and Remuneration Act, 1960 was found very narrow and vague and it was replaced by the Nepal ITA 1962 (2019). The ITA 2002 has also replaced the ITA 1974 (2031).

The ITA has relations with the Constitution: finance Act, Income Tax Rules and decisions of the Supreme Court. These make clear the provisions in income tax law. The development of ITA in Nepal is presented below.

### **2.3.4 Business profit and Remuneration Tax Act 1960(2017)**

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

The sources of income tax purpose were limited only to business and remuneration i.e. income from business and income from remuneration.

Tax on remuneration was to be deducted at source but the specified industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50% Deductions of expenses were not specified for calculating taxable income.

The tax officer was empowered to assess tax on best judgment assessment.

In case of default, fine up to Rs.5000 has prescribed.

Tax on remuneration was deducted at source (TDS)

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

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

This Act was an extension of the Business Profit and Remuneration Tax Act (1917). It had 29 sections. It was amended in 1972. The main features of the Act were as follows.

) The basis of tax assessment was specified on the best judgment estimate of the tax officer.

) Provision was made for the installment basis of tax for the first time.

) Income tax was imposed on all kinds of income such as profit from business, profession, remuneration and occupation, house and land rent, agriculture, insurance business agency and any other sources.

) Provision was made for the exemption of income tax to industries for a period of not exceeding ten years.

) Carry forward of loss was allowed for a period of two years.

) The Act granted the power to constitute the income assessment committee.

) The residential status of the tax payers for the tax purpose was defined.

. Provision was made for reassessment of tax as well as rectification of arithmetical errors.

. Deductible expenses as well as methods of calculation of taxable income were specified.

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

#### **2.3.4.2 Income tax act 1974(2031)**

The ITA 1974 can be said to be the refined form of the ITA, 1962. This Act had 66 sections. This act was amended in 1977, 1979, 1980, 1985, 1986, 1989 and 1992 to make it more practical and to eliminate confusing terms.

Some of the points of the Act with amendment are as follows.

) This act had clarified the definitions about income tax, tax payer and year of income, personal statuses of tax payer, non-resident tax payer, and net income and so on.

) Five sources of income were specified:

1. Agriculture
2. Industry, business, profession or vocation
3. Remuneration
4. House and compound rent
5. Others

) Carry forward of loss is allowed for subsequent three years.

) It had made provision for self-assessment of tax for the first time in Nepal.

) Methods of computing the taxable income from each head had been specified with deductions allowable.

) Deduction was allowed for life insurance premium.

) Tax payers were required to keep accounts and records of the income and to be preserved for six years.

) Provision was made to make agreement for avoidance of double taxation with foreign government.

) Provisions were making relating to re-assessment or additional assessment of tax.

Although ITA, 1974 (2031) was far ahead than the prevailing act, yet it had many vague or unclear words. It had also provided high discretionary powers to the tax officer in the matter of tax assessments.

#### **2.3.4.3 Income Tax act 2002(2058)**

ITA 2002 has been implemented from 2058/12/19 B.S. This Act has replaced the ITA 1974 (2031) and other acts related to income tax. Nepal Government enacted income tax rules 2059 B.S in accordance with the authority given under section 138 'g'. ITA 2002 B.S has 143 sections - Amended ITA 2002 has dismissed the section 66. The Act is broad, scientific and international standard level. The Act governs all income tax matters and is applicable throughout Nepal. It is also applicable to residents residing out side Nepal.

## **2.4 Review of Terminologies Used in Tax and Taxation**

### **2.4.1 Income (Section 2 Ja)**

Income means “person’s income from any employment, business or investment and the total of that income as calculated in accordance with this Act.” It includes all sorts of income received for the provision of labor or capital or both of whatever form nature in the taxable income.

### **2.4.2 Income year (Section – 2 Jha)**

For every person, the tax is imposed and calculated for an income year. The income year corresponds with government’s fiscal year, i.e. the period from the start of Shrawan of a year to the end of Ashard of the following year.

### **2.4.3 Company (Section 2 DA)**

Company means a company established under the company laws for the time being in force. Besides, the following institutions are also treated as companies for Tax purpose:

1. Corporate body established under the laws for the time being in forces.
2. Any unincorporated association committee, society or group of persons other than partnership or proprietorship firm (registered or not) or a trust.
3. A partnership firm (whether or not registered under, the laws for the time being in force) that has 20 or more partners.
4. Retirement fund.
5. A co-operative.
6. Unit trust
7. Joint venture.

### **2.4.4 Partnership (Section 2 Ka. Pa):**

Partnership means a firm (whether or not registered) that has fewer than 20 partners. However, the term does not include a proprietorship firm (whether or not registered) or a joint venture.

#### **2.4.5 Entity (Section 2 bha):**

Entity means the following institutions or organizations,

- ) A partnership, trust or company.
- ) A V.D.C or municipality.
- ) Nepal Government.
- ) A foreign government or a political subdivision of the foreign government.
- ) Public international organizations established under treaty
- ) A permanent establishment of an individual
- ) An entity that is not situated in the country in which the individual or entity is resident.

#### **2.4.6 Individual (Section) 2 Wa:**

Individual means a natural person and proprietorship firm whether registered or unregistered owned by the person, if any, and a couple making on election as single natural person under section 50.

#### **2.4.7 Exempt Organization (Section 2 Dha):**

Exempt organization means the following entities:

- ) Following entities registered with IRD as tax-exempted – a social, religious, educational or charitable organization of the public registered without having a profit motive.
  - a. An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- ) A political party registered with the electing commission.
- ) A V.D.C or municipality.
- ) However, any benefit acquired by any person out of assets of an amounts derived by the entity expect in pursuit of the entity's function or as payment for assets or services rendered to the entity by the person is not exempt from tax.

#### **2.4.8 Assets (Section 2 Ka. Dha.):**

An asset means tangible or intangible assets. It includes currency, goodwill, know-how property and an owner's interest or ownership in foreign branch, a right to receive income weather present or future and party of such asset.

#### **2.4.9 Business (Section 2 ka. Ja):**

Business means an industry, a trade a profession or the like isolated transaction with a business character and includes a past, present or prospective business. However, the term does not include employment.

#### **2.4.10 Employment (Section 2 Jha):**

Employment includes a past present or prospective employment. It is the return for the provision of labour.

#### **2.4.11 Retirement payment (section 2 Nga):**

Retirement payment means a payment to – an individual in the event of the individual's retirement or a dependent of an individual in the event of the individual's death.

#### **2.4.12 Investment (Section 2 ka.kha):**

Investment means an act of processing or investing one or more assets. But the term excludes act of holding assets or personal use by the person owing the asset and employment and business. However, the act of holding non- business chargeable assets is considered as an investment.

#### **2.4.13 Retirement fund (section 2 gha):**

Retirement fund means any entity established and maintained solely of the purpose of accepting and investing retirement fund contribution in order to provide retirement fund payment to an individual who is beneficiary of the entity or a dependent of such an individual.

#### **2.4.14 Tax (section 2dha):**

Tax means income tax imposed under this act and includes following payments:

- ) Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the department.
- ) Amount payable by a withholding agent or withholder or amount payable by an installment payer and on assessment.
- ) Amount payable to the department in respect of tax liability of third party.



- ) Amount payable to the department in respect of a tax liability of third party.
- ) Amount payable by way of interest and penalties.
- ) Amount payable by way of fines in order of the Department.

#### **2.4.15 Business assets (Section 2 ka. Ta):**

Business asset mean an asset to the extent to which it is used in a business. However, it excludes trading stock and depreciable assets of a business. A piece of land used in business is an example of a business asset.

#### **2.4.16 Non –Business chargeable assets (Section 2 Da.):**

Non- business chargeable assets mean securities or an interest in an entity as well as land and buildings; however it excludes the following assets:

- ) Business assets, depreciable assets or trading stock.
- ) A private residential house of an individual that has been owned continuously for at least three years and resident for a total period of at last three years either continuously or intermittently.
- ) Interest in a retirement fund of a beneficiary.
- ) A private residential house and land of an individual that is disposed in less than one crore rupees.
- ) Non-business asset of an individual that is disposed of by way of any type of transform other than sales and purchase made with in three generations.

#### **2.4.17 Depreciable assets (12 Ka Ra.)**

Depreciable asset mean an asset to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear obsolescence or the passing of time, however, the term does not include trading stock.

#### **2.4.18 Associated persons (2 ka.na.)**

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other. It includes

- ) An individual and relative of the individual or on individual and a partner of the individual.

) A foreign permanent establishment and its owner.

) An entity and a person who either along or together either an associate or associates controls or may benefit from so percent or more of the rights to income, capital or voting power of the entity, as the case required, either directly or through one or more interposed entities: or a person who is an associate of such person.  
(However, the term does not include employee and person prescribed by the Department as not being associate persons)

#### **2.4.19 Taxing Subjects (sector) 2(ka.nga)**

) The tax payers on whom income tax is imposed are persons. A person is a natural person, who is an individual or a couple but includes also a proprietorship, or it can be an artificial person, i.e. an entity. An entity means a partnership, trust, company and foreign permanent establishment or government body.

) The act distinguishes between resident and non resident persons. A resident person is an individual whose normal place of abode is in Nepal and who is present at any time of the year, or who is present in Nepal for 183 days or more, or who is an employee of government of Nepal posted abroad at any time during the year.

) A trust is a resident person if it is established in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company residing in Nepal and if it is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishments are places where a person carries on business and are subject to tax if they belong to a non-resident person and are situated in Nepal.

#### **2.4.20 Taxable Income (section -5)**

The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any claimed for the year under section 12 (gifts to an exempt organization) or 63 (retirement contribution to an approved retirement fund) from the total the person's assessable income for the year from each of the followings income heads:

Business, employment and investment.

#### **2.4.21 Income Heads (section 7, 8, 9)**

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

- ) Business: profits and gains of a person from conducting a business for an income year.
- ) Employment: an individual's remuneration income from an employment for an income year.
- ) Investment: profits and gains of a person from conducting an investment for an income year.

Income and gains are ascertained only after deducting the corresponding expenses. The income from each business and investment needs to be calculated separately.

#### **2.4.22 Exempt Amounts (section –10)**

The following amounts are exempt from tax:

Amount delivered by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Nepal government and a foreign country or international organization.

- ) Amount derived by an individual from employment in the public service of the Government by a foreign country.
- ) The individual is a resident person solely by reason of performing the employment or is a non-resident person.
- ) The amounts are payable from the public funds of the country.
- ) Amounts derived from public fund of the foreign country by an individual who is not a citizen of a Nepal or by a member of the immediate family & the individual.
- ) Amounts derived by an individual who is not citizen of Nepal from employment by Nepal Government on terms of a tax exemption.
- ) Allowances paid by Nepal Government to widows, elder citizens or disabled individuals.
- ) Amount derived by way of gift, bequest, inheritance or a scholarship except as required to be included in calculating income from business, employment or investment.
- ) Amounts derived by an exempt organization by way of

#### **2.4.22.1 Gift or donation.**

#### **2.4.22.2 Other contributions that directly relate to the exempt organization for example, subscription fee received by a club i.e. exempt from tax.**

Amount derived by Nepal Rastra Bank as per its objective

#### **2.4.23 Business Exemptions and Concessions**

ITA 2058 has provided the following business exemptions.

) Any agriculture income derived from sources in Nepal by a person other than the following is exempt from tax.

- Income from an agriculture business derived by a registered firm, company, partnership or corporate body.

- Income through the land above the holding as prescribed in section 12 of the Land Act 2021.

) Income derived by co-operative societies registered under the Co-operative Act 2048 for business mainly based on agriculture and forest products and divided and distributed by such societies are exempted from tax.

- Any person operating a special industry during the whole income year will be taxed as under.

- If the industry is providing direct employment to 600 or more Nepalese citizens throughout the whole year 90% of the applicable tax rate (20%) is applied for the year.

- The industry operating in remote undeveloped and underdeveloped areas will have to pay 70%, 75% and 80% of the applicable tax rate (20%) respectively up to ten income years commencing from and including the year in which the operation commences.

- If both exemptions are available to the same special industry for the same income, only one exemption is available as per the selection made by the industry.

- If the assets used by the special industry were used previously by another person operating a similar type of special industry the ten-year period for the later will be counted from the period of such use by the other person previously.

- The income received under business exemptions and concessions should be calculated separately assuming that these incomes are received separately. That is, incomes received under business exemptions and concessions should be separated from other general business and investment incomes.

#### **2.4.24 Special Provisions for Entities (section 51–58)**

ITA – 2058, has introduced some paramount provision of taxation for entities, these are:

- )] Any entity is viable to tax separately from its beneficiaries.
- )] Distribution of entities (i.e. dividends) will be taxed to beneficiaries in the form of final withholding payment.
- )] Amount derived and expenses incurred by an entity are treated as derived or incurred by the entity (not any other person).
- )] Assets owned and liabilities owned by an entity are treated as owned or owed by the entity and not any other person.
- )] Foreign income tax paid with respect to the income of an entity, is treated as paid by the entity.
- )] Transactions between an entity and its manager and beneficiaries are recognized.
- )] A distribution of an entity includes continue:
  - A payment made by the entity to any of its beneficiaries in any capacity
  - Any capitalization of profit.
- )] Dividend distributed by a company to its shareholders will be taxed @ 5% in the form of a final withholding tax dividend distributed by other entity is exempt from tax, dividends of a non-resident entity are distributed to a resident beneficiary, the dividend amount will be included in the income of the beneficiary and if dividends redistributed are out of dividends taxed earlier, such dividends are exempt from tax.
- )] In addition the act contains detailed provisions for liquidations of entities, for dealing between an entity and a beneficiary, for changes in control of an entity and for dividend stripping

#### **2.4.25 Special Provisions for Individuals**

ITA- 2058 has made some special provisions for individuals.

- )] Couples (sec.50): A resident natural person and a resident spouse of the person may elect to be treated as a single individual. For this, they have to notify IRD in writing. In this case, both are jointly or separately liable for any tax payable by the couple for the year.
- )] Medical Tax Credit (sec.51): - A resident individual may claim a medical tax credit for an income year for any approved medical costs paid by the individual himself or through other during the year in respect of the individual. The maximum amount that can be claimed

will not exceed 15% of approved medical costs or Rs. 750. Any excess amount due to limitation or lack of tax payable can be carried forward and added to the amount for the next income year

Eligible medical costs include:

- 3 Health insurance premium.
- 4 The expenses as per bills for treatment by recognized hospital, nursing home, health care or a doctor.

However, the eligible medical costs will not include expenses incurred on cosmetic surgery and medical expenses compensated by insurance company on account of health insurance.

#### **2.4.26 Deduction (Chapter-3)**

Basically, all actual costs to the extent incurred in generating income from the business or investment are deducted while calculating a person's income. This generalization, however, is taken into consideration in conjunction with the special provisions made in the act. For example, interests paid by exempt controlled entity to the parent in the course of conducting a business or investment, are deductible with some limitations. Other costs such as cost of trading stock, repair and improvement cost of owned and used depreciable asset, pollution control, research and development are also deductible with some limitations.

Depreciation allowances are granted for depreciable assets, which are categorized in 5 classes. The classes are based upon the average useful life of the assets belonging to one class. The assets of each class are placed in a pool and a depreciation rate applies to each pool.

Allowable limit for repair and improvement cost of owned and used depreciable asset is raised to 7% of depreciation bases. No deductions are granted for expenses that are of a domestic personal nature, income tax, government penalties costs in deriving exempt amounts of final withholding payment, dividends distributed by an entity, cost of a capital nature and cash payment above Rs. 50,000 under prescribed conditions.

#### **2.4.27 Special Provisions for retirement Savings**

The act distinguishes between the treatment of approved and unapproved retirement fund. In case where a resident person files an application with the Department intending to get

approval for establishing a retirement fund, the department shall pronounce the approval as prescribed.

An individual who is a beneficiary of an approved retirement fund may claim a reduction of retirement contributions made to the fund for an income-year. The limit of the claim is the lower of Rs. 300,000 or one third of his assessable income for the year. Contributions to an unapproved retirement fund are not deductible. The income of an approved retirement fund is free of tax whereas an unapproved fund is subject to full income tax.

#### **2.4.28 International Taxation**

For taxation purpose, all payment and gains need to be considered on the basis of the source country of the payment details of the circumstances under which the source rules are defined are given in the act.

Tax is imposed on the repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal.

A non resident person carrying on a business of chartered or air transport operator are taxed at a flat rate in their amounts derived from carriage of passengers, mail or goods which embark in Nepal. The provision is also applied to non-resident persons who transmit messages by any technical means if the apparatus is established in Nepal.

A tax credit may be claimed for any foreign income tax paid with respect to foreign source income. The tax credits are calculated separately for assessable foreign income sources in each country and will not exceed the average rate of Nepal income tax applied to the assessable foreign income.

#### **2.4.29 Tax Rates.**

) The taxable income of a resident individual for an income-year will be taxed at the following rates up to Rs. 115,000 – Not taxable

Form Rs.115, 000 up to 200,000- @ 15% i.e. Rs. 12750

Above Rs. 200,000 - @ 25%

) Additional tax (Surcharge) @15% of Rs 200,000.

) The taxable income of a couple, if they choose to be treated as a couple will be taxed at the following rate.

Up to Rs. 140,000 – Not taxable

From Rs.140, 000 up to 225,000- @ 15% i.e. Rs. 12,750

Above Rs. 225,000 - @ 25%

- Additional tax (Surcharge) @15% of Rs 200000.

) Any individual or couple having pension income can enjoy 25% of the normal exemption limit as an additional basic exemption.

) Any individual working in prescribed remote area is entitled to deduct prescribed amount as remote area allowance from taxable income Rs 30,000, Rs24,000, Rs18,000, Rs12,000, Rs 6,000 for A, B, C, D or E area.

) Any individual is entitled to deduct the following amount from taxable amount, if he is having investment insurance policy; "Rs. 10,000 or 7% of insured amount or the actual premium paid, which ever is less"

) Surcharge or additional income tax on taxable income is reduced to 1.5%.

) For the purpose of the act, net gains from the disposal of non-business chargeable assets will taxed at the rate of 10%.

) The presumptive tax for individuals conducting small business (who have turnover of Rs. 1.5 Million or an income of Rs. 150,000) in the metropolitan or sub-metropolitans, Municipalities and anywhere else in Nepal amounts to Rs. 2,000, Rs.1,500 and Rs. 1,000 respectively.

) The taxable income of a non-resident individual is taxed at the rate of 25%

) The taxable income of an entity will be taxed at the rate 25% unless prescribed otherwise.

) The taxable income of a bank, or financial institution or general insurance business, or an equity conducting petroleum work under petroleum act, 2040 for an income year is taxed at the rate of 30%.

) Gain from Lump sum retirement payment made by an approved retirement fund or Nepal Government is taxed at the rate of 6% as a final withholding tax. Gain is calculated by



deducting 50% of the payment or Rs. 5, 00,000 whichever is higher from the total lump sum payment.

) The taxable income derived by an individual from special. Industry or exports business will be taxed at the rate of 20%.

) The taxable income derived by an entity engaged in the industrial enterprise or export business or derived from operating any road, bridge, tunnel, ropeway or flying bridge construction business or any trolley bus or manufacturing business is taxed at the rate of 20%.

) The taxable income of an entity engaged in power generation transmission or distribution is taxed at the rate of 20%.

) The taxable income of an estate or trust of an incapacitated resident individual will be taxed at the normal tax rate as through the estate or trust was a resident individual.

) The repatriated income of a foreign permanent establishment of non-resident person situated in Nepal will be taxed at the present of 10 percent.

) The taxable income of a non-resident person deriving income from providing shipping air transport or telecommunication services in Nepal will be taxed at the rate of 5%.

) The taxable income of an entity wholly engaged in the project conducted by an entity so as to build public infrastructure, own operate and transfer it to the Nepal Government in power generation, transmission or distribution for an income year shall be taxed at the rate of 20%.

#### **2.4.30 Set up, Carry forward and Carry Back of losses (section 20)**

) Losses are in principles deductible but are treated differently depending on whether they result from construction a business or an investment and whether they are of domestic or foreign nature. Losses from a domestic business can be offset against all types and sources of income, where as losses from a domestic investment can be offset any against foreign income. Foreign business losses can be offset against foreign business income or investment. Losses from foreign investment can only be offset against foreign investment income.

) Unrelieved business losses of previous seven years are allowed to carry forward.

) In case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as to build public infrastructure, own, operate and transfer to the Government any unrelieved loss the previous twelve years are allowed to carry forward.

) If a person incurs a loss for an income year any banking and deduct it in calculating the income from the business for any of the five preceding income years.

) Special provisions exist in the act on how to deal with losses incurred in conducting a business of global long-term contract.

#### **2.4.31 Other Provision of Income Tax Act 2058**

) The act has broadened the tax base. Tax rates are spelled out in the act itself and the tax rates and concessions are harmonized on equity grounds.

) A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.

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

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

) The appeal system is further streamlined by making. It mandatory for the taxpayers to file an objection with the Inland Revenue department of administrative review before appealing to the revenue Tribunal.

### **2.5. Theoretical Framework of Tax Planning**

Planning is an important tool for every business enterprises whether big or small, old or new private or public, planning regards corporate planning as "A formal and systematic managerial process organized by responsibility time and information to ensure that operational planning project planning and strategic planning are carried out regularly to future of an enterprise" operational planning refers to the facture planning of existing operations in existing market with existing customers. Project planning includes the general appraisal and working out the detail of an action (project) outside the scope of existing operations strategic planning is the process of formulating long-run objectives and deciding on the resources for achieving them. Corporate planning, this includes operational planning, project planning and strategic planning.

Basically there are four ways of minimizing the tax liability i.e. tax evasion, tax avoidance, tax delinquency and tax planning.

### **2.5.1. Tax Delinquency**

The meaning of tax delinquency is delaying in paying taxes. Tax delinquency is also one way of reducing tax liabilities. In this case, the liability is reduced in respect value by deferring the payment. Although tax delinquency means the failure to pay tax due to lack of sufficient fund, it also covers non-payment at the time of having fund. It is temporary deceiving of tax by the tax payers although he can not escape in the long term.

### **2.5.2. Tax Avoidance**

"Tax avoidance is the art of dodging tax without actually breaking the law". It is a method of reducing tax liability by taking advantages of certain loopholes in the tax laws. Tax avoidance as a transaction, which would not be adopted if the tax saving elements were absent; Therefore, tax avoidance involves (a) A transaction interred into avoid tax and with full legal backing and (b) A transaction which the legislature wouldn't intend to encourage. The following are the criteria used by English and Indian court to find out of tax avoidance

- ) Use of colorable devices
- ) Twisting of facts
- ) Taking only strict spirit of law and suppressing the legislative intend.

Tax avoidance is the reduction of tax liability through the manipulation of existing law. It is legally permissible but unethical. Sec 35 of the income Tax act 2058 has defined tax avoidances any means or arrangement, one of the main purposes of which is the avoidance or reduction of tax liability.

### **2.5.3. Tax Planning**

Tax planning is the art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concessions allowances and relief's provided for in the tax laws. As such, the basic purpose of corporate tax planning is to reduce or postpone the overall tax burden in the present and foreseeable future. Tax planning is a discipline and an attitude towards solving the corporate problems in a methodical way from a long run point of view.

Tax planning is a scientific planning of company operations. It is the use of various incentives, concessions, allowances, rebates etc. and it is an activity related to future. It has the objectives of (a) reduction of tax liabilities, (b) Minimization of litigation (c) Productive investment, (d) Healthy growth of the economy (e) economic stability

### **2.5.3.1 Features and Importance of tax planning**

Features:

- ) It is the genuine use of the facilities provided by the government.
- ) It is entrance economic environment of the country.
- ) It reduces tax liability
- ) It is universal in nature. It means all the business organizations use tax planning.
- ) It is a use pf expertise to get consciously given facilities.
- ) It is related to future activities

Importance:

- ) Tax planning saves tax and increases profitability.
- ) It avoids unnecessary worries. Tensions and administrative basses.
- ) It helps in using the facilities provided by the government.
- ) It helps in analysis of risk.
- ) It creates good business environment.
- ) It helps in development of man power

### **2.5.4. Tax Evasion**

Tax evasion involves hiding income illegally or concealing the particulars of income or a particular source or sources of income or manipulating the accounts to overstate expenditures and other out goings and understate incomes with a view to reducing profit and thus the taxable income. Tax evasion is therefore, illegal unethical and uneconomic as well. "Tax evasion means reduction of tax through illegal means. It is done through foddering ways like non-reporting income, underreporting of income, making fraudulent changes in account books, maintaining multiple sets of accounts, operating business transactions under different names, opening bank account in dummy name, over reporting of expenses, fragmentation of income, transfer pricing etc. tax evasion is unethical, illegal and uneconomic activity also. It

is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it's uneconomic because it promotes black money i.e. underground economy in a country. Such types of activities do not promote healthy economic system in the country.

Basically, there are three types of effects of tax evasion in the country i.e. less or revenue to the state, redistribution of income which effects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government Policies. Tax factors include tax rate, tax base, tax structure, penalty and possibility of applying penalty if evasion is detested. Mainly tax factors are more concerned with the tax evasion on income from legal activities. There are several types of tax evasion unilateral (tax payer himself), bilateral (with the connivance or assistance of government official), trilateral (from the collusion of tax officers, tax auditors and tax payers) and multilateral (All parties from government to tax payer). In a work of tax evasion, it is very difficult to choose between business men, professional, a person in service, or a politician who is not a tax evader.

## **2.6. Review of Related Studies**

Since 1959/1960, Income tax was started in Nepal after its establishment. Many individuals and institutions have studied in this subject regarding legal aspect administrative problems, historical aspect, trend of income tax and income tax structure etc. They have made appreciable efforts in the field of income tax.

Many dissertations, books, articles and 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.

Dr. Govind Ram Agrawal (1980) wrote a book entitles "resource Mobilization in Nepal". This book was published by CEDA, Kathmandu. Dr. Agrawal contributed towards the new dimension inside of Nepalese income taxation. Dr. Agrawal in his book, details explains about resource mobilization through income tax. Nepalese fiscal policy, effective tax system and tax policy, income tax system in Nepal's role of income tax in Nepalese tax structure,

administrative and legal aspects of income tax in Nepal. His main contribution from this book is concerned to the empirical investigation of facts and figures about the income tax in Nepal. He also calculated the responsiveness and various projections for future about income.

Santosh Raj Poudyal (1993) wrote a book entitled "Income tax law and practice" Poudal has described the must 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 must of the related terms in the respect with the assessment of different income tax. Mr. Poudal 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 payers, 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, right and duties of tax payers have also been described in this book.

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

Nagendra Bahadur Pradhananga (1993) 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.

Rup Bahadur Khadka (1994) had shown VAT as a long term tax for Nepal, Income tax and composition tax revenue from 1950/51 to 1991/92 in his book named "Nepalese taxation: Path for reform". In his book, he had described the introduction development, existing structure, main problems and possible direction of reform. 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.

Surendra keshar Amatya, Dr. Bihari Binod Pokharel and Rewanta Kumar Dahal (2004) wrote a book entitled "Taxation in Nepal" Mr. Amatya, Pokharel and Dahal had described the

provisions made under income tax laws. This book is divided into 31 chapters. They had described about income tax and its development in Nepal, tax accounting, qualification, allocation and characterization of amounts, exemptions, concessions facilities and tax rates, expenditure expressly disallowed for deduction, capital or revenue incomes and expenditure, special provision for natural person and entity, income heads and sources, income from employment income from business, set off, carry back and carry forward of losses, income from investment, net gain from disposal of assets and liabilities and capital gain taxation, total assessable taxable income and tax liability, international taxation, total assessable income, taxable income and tax liability, form of documentation, PAN and maintenance of documents. Income return and tax assessment, payment, collection and refund of tax administration, rights and duties of tax payers and other persons penal provisions, appeal, property tax in Nepal, value added tax in Nepal right and duties of tax payer 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 it is also for Master Level of Management.

K.P. Aryal and Surya Prasad Paudel (2003) wrote a book entitled "Taxation in Nepal". This book is based on ITA 2002. This book is divided in three parts. It has 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, right and duties etc.

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

The contribution of income tax to direct tax has increased significantly since its introduction. In terms of the composition of income tax the share of corporate income tax was 59.8% and that of individual income tax was 31.2% in 1999/2000. She had hoped that the coverage of income tax would be widened after the implementation of income tax act 2001.

She had added that the Nepalese tax administration had been attempting to modify. Itself to meet the pressing challenge brought about by change in technology and economic policies.

However, still its working is traditional and the cost of administration has both been brought to the satisfactory level.

Puspa Kandel (2001) has criticized the Income Tax Act 2002 on several grounds. Exemptions of agricultural income from income tax, export duties levied on export, inequality between different capital earned income i.e. tax on interest, dividend and capital gain with drawl of the provision of exemption. Suddenly and no adjustment for inflation are the major issues he raised in his article he also said that tax regime creates more burden than the former one.

Dr. Chandra Mani Adhikari (2003) wrote a book entitled "Modern taxation in Nepal". Dr. Adhikari had described the provisions and laws related to income taxation of Nepal according to new ITA 2002. This book has been divided into five chapters.

First chapter has described about theoretical concept of taxation. Second chapter has described about income tax system in Nepal. In this chapter the writer has described about heads and sources of incomes, employment or remuneration income tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been describes about property tax house and compound tax etc. wind fall gain tax and other provisions have been described in fifth chapter. This book is written for students of TU, especially for BBS, MBS and MPA students. However, it is useful to tax payers, tax administrators and others.

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

Ishwor Bhattarai and Girija Prasad Koirala (2004) in their book "Tax laws and Tax Planning" described the theoretical and practical aspect of income tax with related provisions. It was



based on TU syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

Puspa Raj Kandel (2003) wrote a book "Tax Law and Tax Planning in Nepal" which is based on government regulation and therefore is a very timely work and extremely helpful for students of Master and Bachelor of Business Studies. This second edition has attached unofficial translation of the tax laws-both acts and rules related to value added tax and income tax appendices. But he had not analyzed the role of income tax, tax structure and problem of income tax.

Kamal Deep Dhakal (2001) 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 numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem and weakness of income tax.

Shrestha Income Tax Act 2058

### **2.6.1 Review of Previous Thesis**

Rohini Shrestha (1981) in her study "Income Tax Nepal" had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax she has also described per capita burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reason of tax evasion more low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment widespread illegal business activities etc. She found that the tax administration is not efficient.

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

Bamshidhar Ghimire (1993) wrote a thesis entitled "Principle of Direct Tax and Provision of Direct Tax " had described the classification of tax, base of income or expenditure tax, base

of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, in tax of income tax in Nepal, contribution of tax income to national revenue errors of past provision, some steps of administrative improvement etc. he found that the tax covered very low portion of total revenue because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. he had also noticed some errors of provision relating to income tax. They were progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holyday and rebate, provision of low additional fee as compare to market interest rate etc. he also suggested some step of administrative improvement. They were provision of income assessment committee fleet rate of tax to small tax payer's establishment of tax office etc.

Sanjaya Acharya (1994) wrote a thesis entitles "income tax in Nepal". A study of its structure, productivity and problems had describes 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:

- To reduced inequality of income distribution.
- To collect more government revenue.
- 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.

Binita Shrestha (2001) wrote a thesis entitled "Revenue collection from income tax in Nepal, problem and prospects" described the conceptual frame work and legal provisions, structure of income tax in Nepal, income tax administration in Nepal: an empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend.

She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of the consciousness of tax payers unscientific tax assessment

procedure, widespread evasion and avoidance of income tax, inefficient tax administration instability in government policy etc. She had taken 60 people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation coefficient to prove the hypothesis on the problem of income tax system.

Although she had suggested about the income tax system like extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to the people, she had taken any investigation about the provision of fine and penalties.

Bastanta Kumar Singh (2002) had conducted a research entitled "A Study on Application of Best Judgment of Income tax assessment with reference to ITA,1974" need provision and the role of best judgement in income tax assessment are the objectives of the study. In this study he found that in Nepal, income tax assessments are mainly performed by committee. The data shows that above 70 percent of the total income tax assessment are finalized by the committee. He also found that only 9.01 percent of the total income tax assessments were performed on the basis of account in 1990/91, which was 10.49percent in 1991/92. In 1999/2000, its share remained only 3.89 percent of income tax assessment.

He also discussed on the income tax assessment of Nepal, basis of assessment, necessary condition for the best judgment assessment natural justice and best judgment etc in this study.

Puspa Raj Kandel (2000) also presented Ph.D thesis entitled "Corporate Tax system and Investment behavior in Nepal. He undertook the research work to fine out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of this study were to evaluate the corporate tax system in general, to examine of sensitivity of certain policy like inflection capital gain, dividend tax and interest tax etc, based on their impact on tax burden. He showed the relationship of private investment with average effective tax rate (AETR), marginal effective tax rate (METR) and tax incentives of Nepal.

## 2.6.2 Review of Reports

Dr. Govind Ram Agrawal a senior research officer of CEDA had conducted a research on a topic; "Resources mobilization for development. The reform of income tax in Nepal" CEDA Kathmandu published this report in 1978. This study focused on the various aspects of income tax in Nepal. Some of the important objectives of this study were as follows.

) To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.

) To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.

) To examine the ways and means for increasing tax consciousness in the Nepalese public. Some remarkable findings and recommendations of the reports were as following.

- a. Income tax has been a fast growing category of tax revenue in Nepal.
- b. The individual tax payers contributed more than 50% of the total income tax revenue.
- c. Needs for additional resource mobilizations were growing by 8 times in Nepal and Nepal was experiencing a serious and growing problem of resource gap

### Recommendations

- Additional domestic resources should be mobilized through taxation
- Tax structure of Nepal needs to be redesigned in order to increase the role of direct tax.
- Income tax should be reformed in Nepal

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

## **2.7. Research Gap**

There is the gap between the present research and previous researches conducted on tax planning. They were either a case study of a particular company or a comparative study of two different companies.

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

PE's are the backbone of the economy. The contribution of income tax from PE's plays vital role in the economy. Here, NTC is the main enterprise to contribute more tax revenue to government. The previous researches did not study about contribution of income tax from PE's with reference to NTC.

Besides these, contribution of income tax from PE's with reference to NTC, to government revenue has also been out done analytically. Likewise, structure of NTC to public revenue had been studied analytically and intensively by this research

## **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 sufficiently broad requiring solvating to a problem, Secondly; it explicitly recognizes the systematic research process in which data are gathered recorded, enclosed and interpreted in order 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 staring problem with contain object in a view. The objective of the study is to analyze the tax planning and to analyses 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 varies 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 factor or information already valuable and analyze these to make the critical evaluation of the material.

) An empirical research relies an observation alone often with out due requires for system and theory. It is a data based research coming up with conclusion which is capable of being versified by observation.

#### **3.2 Research Design**

Research design is an overall framework or plan for the collection and analysis of data. Research design focuses the data collection methods, research instruments utilized and

sampling plan to be followed. The research design is the conceptual structure within which the research is conducted. Hence, the research design is a plan, structure and strategy for investigation of the facts in order to activate the conclusions. This study is basically based on the secondary data but whatever necessary the primary data even also be collected.

Hence both descriptive and analytical research designs have been used to conquest the contribution pattern of income tax from PEs to public revenue of Nepal with special reference to NTC.

### **3.3 Sources of Data**

Both primary and secondary data have been collected in order to active the real and fateful result out of this research. All the possible and useful data as far possible have been collected. The major sources of data are as follows.

#### **) Primary sources of Data**

The major tool used for the collection of primary data is the questionnaire to a responsible person. A set of questionnaires are developed and distributed to the selected respondents in order to get accurate information Personal and telephone interviews were also conducted to collect more information on the object.

#### **) Secondary Sources of Data**

The secondary data have mostly been collected through books, articles, newspaper and reports. The major sources of secondary data.

- Economic surveys and budget speech of various years, Ministry of Finance
- Annual reports and records of NTC.
- Publications of Inland Revenue department.
- Books related to public enterprises.
- Reports and records of Inland Revenue Department, Ministry of Finance
- Dissertations related to taxation available at Central Library, TU and library of Nepal Commerce Campus.

### 3.4 Population and sample

The tax administrator, tax experts/ policy makers and tax payers in Nepal were considered as total population. Out of them, the tax administrators, tax experts/policy makers and tax payers in Katmandu valley were considered as target sample. The respondents have been presented as follows:.

Group of respondents and sample size.

S N	Group	Number
1	Tax administrators	25
2	Tax experts/Policy makers	25
	Total	50

### 3.5 Data Gathering Procedure

As maintained above, the study is based on primary as well as secondary data. The information of primary data was collected by developing a set of questionnaire and distributed to the selected respondents in order to get actual and accurate information. Distribution work was done personally rather than sending by any other means.

### 3.6 Data Analysis Procedure

Collected data from questionnaire were in raw form. Firstly, they were classified into related categories, after then tabulated, re-tabulated and presented into graph in the required format. In order to get more reliable information, accounting principle, mathematical approach and legal provisions of ITA 2058 has been taken in to consideration in data analysis procedure.

The information received in deferent aspects of taxation and tax planning from primary and secondary sources was first processed for tabulation and analysis. For, the purpose of analysis, simple statistical tools have been used which are as follows.

The following tools are applied for the purpose of analysis.

- Average
- Percentage
- Test of Hypothesis



### **3.7 Weight age of the choice**

The questionnaire was asked to give yes/no response or to give their opinions. Respondents were also given alternatives to rank. In this case, the first choice got the highest point and the least choice got the lowest point. The total points were converted into percent of total points available to the all alternatives. The alternatives with the highest percentage were ranked as most important and the alternative with the lowest percent was ranked as the least important. For example, if there are five point alternatives, the most important rank got five points and the least important rank got one point. The alternative which was not ranked does not have any points.

## **CHAPTER 4**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter deals with the presentation, analysis and interpretation of the relevant data of taxation in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. Pant (1998) writes that a report can be worthless if interpretation is faulty, even if valid and relevant data have been collected.

The data after collection help to proceed and analyze in accordance with the outline lay down for the purpose at the time of developing the research plan. The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Giles studies (as cited in Kothari 2004) explores that data analysis is the relationship or difference supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion.

#### **4.1.1 Structure of Government Revenue in Nepal**

Government revenue of Nepal is comprised of tax revenue and non tax revenue. The tax revenue consists of customs, tax on property, profit and income. Similarly non tax revenue includes charges, fees, fines and forfeiture, receipts from sale of commodities and services, dividend, royalty and sale of fixed assets, principal and interest payment and miscellaneous items. The structure of government revenue in Nepal has been presented in table below.

**Table No.1**  
**Structure of Government Revenue in Nepal**  
**From**  
**FY 2002/03 to FY 2006/07**

Rs. in million

<b>Fiscal year</b>	<b>Customs</b>	<b>Tax on consumption of products, Goods and Services</b>	<b>Land revenue and Registration</b>	<b>Tax on Property, profit and Income</b>	<b>Total Tax Revenue</b>	<b>Non Tax Revenue</b>	<b>Total Revenue</b>
2002/03	14236.4	18244.8	1414.3	8691.4	42586.9	13642.9	56229.8
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0	14158.0	62331.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7	16018.0	70122.17
2005/6	15344.0	28118.3	2181.1	11787.0	57430.4	14851.6	72282.0
2006/07	16708.0	35439.0	2253.5	16727.0	71126.7	16585.4	87712.1

Source: Economic Survey of various years, Ministry of Finance, Government of Nepal

**Table No.2**  
**Structure of Government Revenue in Nepal**  
**From**  
**FY 2002/03 to FY 2006/07**

**In Percentage**

<b>Fiscal Year</b>	<b>Customs</b>	<b>Tax Consumption</b>	<b>Land Revenue and Registration</b>	<b>Tax of Property Profits and Income</b>	<b>Non Tax Revenue</b>	<b>Total</b>
2002/03	25.32	32.44	2.52	15.46	24.26	100
2003/04	24.96	33.22	2.72	16.39	22.71	100
2004/05	22.39	36.12	2.57	16.08	22.84	100
2005/06	21.23	38.90	3.02	16.31	20.5	100
2006/07	22.95	48.69	3.09	22.98	22.8	100

Source: Economic Survey of various years, Ministry of Finance, Government of Nepal

**Note:**

- Customs include imports, exports, Indian excise refund and others.
- Tax on consumption of products goods and services includes industrial products, liquor contract, sales tax value added tax, entertainment tax, hotel tax, air flight tax, contract tax, road/bridges maintenance tax and others.
- Land revenue and registration includes land revenue, house revenue and land registration.

- Tax on property, profit and incomes includes income tax from public enterprise, income tax from private corporate bodies, income tax from individuals, income tax from remuneration, urban house and land tax, vehicle tax, tax on interest and other taxes.
- Non tax revenue includes charges, fees, fines and forfeitures, receipts from sale of commodities and services, dividend, royalty and sale of fixed assets, principal and interest payment and miscellaneous incomes.

Above tables 1 and 2 show the various tax and non tax revenues, Tax on consumption of products goods and services has the highest percent of contribution towards the total revenue. Its contribution in million of rupees has been increasing per year. In the fiscal year 2002/3 total revenues is Rs 56229.8 million and tax of consumption of product, goods and services was Rs. 18244.8 million which indicated 32.44% tax of total revenue. In fiscal year 2006/07, out of the total revenue Rs.87712.1, tax on consumption of products, goods and services had the share of Rs 35439 million, which meant 48.69% contribution. The mean contribution of goods and services over the 5 years is 37.874% of the total revenue of Nepal.

The custom occupied the second place among revenue. The contribution of customs has been showing slightly increasing trend. In the fiscal year 2002/03 out of the total revenue of Rs.56229.8 million Rs.14236.4 million had been raised from customs. Out of the total revenue of Rs.87712.1 million in 2006/07, Rs 16708 had been raised from Customs Duty. This average contribution of customs over the 5 years from period is 23.37%.

Non tax revenue occupies the third place regarding its contribution to total revenue of Nepal. Its contribution was Rs.13642.9 million in fiscal year 2002/03 and Rs.16585.4 million in fiscal year 2006/07 The average contribution of non tax revenue over 5 years 22.62%

Tax on property, profit and income occupied the fourth place regarding, its contribution to the total revenue in Nepal. Tax on property, profit and income consists of income tax from public enterprises, income tax from Private Corporate bodies, income tax from individuals, income tax from employment, urban house and land tax, vehicle tax, tax on interest and other taxes. It has share of Rs 8691.4 millions and Rs.16727 million in fiscal years 2002/03 and fiscal year 2006/07 respectively i.e.15.46% contribution in F.Y. 2002/03 and 22.98% contribution in F.Y.2006/07. The average contribution of tax on property, profit and income in total revenue of Nepal is 17.44%

Land revenue and registration has the lowest average contribution of total revenue. Its contribution in F.Y. 2006/07 was Rs.2253.5 million i.e. 3.09% in total revenue of Nepal. The percent contribution has been functioning but amount contribution in total revenue has been increasing per year except for certain years.

#### **4.1.2 Direct tax and indirect tax revenue in total tax revenue of Nepal.**

The structure of Nepalese tax revenue can be presented in terms of consumption, income and capital based tax – taxes on consumption are known as indirect tax and taxes on income as well as capital are known as direct taxes . Indirect tax includes Customs duties, excise duties, VAT, entertainment tax, hotel tax, air flight tax and road and bridge maintenance tax. Similarly income tax, land revenue, urban house and land tax, vehicle tax, interest, health tax and other tax are included in direct tax. The structure of Nepalese tax revenue is presented in the Following table in terms of direct and indirect tax revenues from the fiscal year 2002/03 to 2006/07. From the resented below table it is clear that whole Nepalese tax structure is dominated by indirect tax revenue.

**Table No.3**  
**Contribution of Direct Tax and Indirect Tax in Total Revenue of Nepal**  
**From**  
**F.Y 2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal year</b>	<b>Total tax Revenue</b>	<b>Direct Tax</b>	<b>Percent (%)</b>	<b>Indirect Tax Revenue</b>	<b>Percent (%)</b>
2002/03	42586.9	10105.7	23.73	32481.2	76.27
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.01	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.68	52146.4	73.32

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

In fiscal year 2002/03 out of the total tax revenue of Rs. 42586.9, Rs.10105.7 million and Rs. 32481.2 million have been contributed by direct taxes revenue and Indirect tax revenue respectively. It means about 23.73% And 76.27% of total tax revenue has been contributed by direct tax revenue And indirect tax revenue respectively. In fiscal year 2006/07, Rs18980.3 million and 52146.4 million of total tax revenue have been contributed by direct tax revenue and indirect tax respectively i.e. 26.68%and 73.32% of total tax revenue have been collected from direct tax and indirect tax. From the comparison of the direct tax and indirect tax revenue, indirect tax has significant contribution in the total tax revenue of Nepal.

#### 4. 1.3 Structures of Income Tax in Nepal

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

**Table No.4**  
**Composition of Income Tax in Nepal**  
**From**  
**F.Y 2002/03 to 2006/07**

Rs. in million

<b>Fiscal year</b>	<b>Income Tax Revenue</b>	<b>Government Enterprise</b>	<b>Semi Public Enterprise</b>	<b>Public Corporate Bodies</b>	<b>Individuals</b>	<b>Employment opportunities</b>	<b>Tax on Interest</b>	<b>Other Taxes</b>
2002/03	8131.9	1251.0	0	1236.3	3362.2	1252.6	864.0	165.8
2003/04	9514.5	2056.6	0	1531.3	3533.4	1391.2	733.4	268.6
2004/05	10466.1	1332.4	0	2467.8	3926.3	1675.9	757.0	306.7
2005/06	10938.4	195.7	0	3403.3	4234.7	1764.1	774.9	565.7
2006/07	15731.8	1019.7	0	5717.1	5234.4	2007.9	1054.9	697.8

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal



From the above table, income tax revenue seemed to have been increasing. In fiscal year 2002/03 Rs 8131.9 million were raised from income tax revenue. In fiscal year 2006/07 Rs 15731.8 million were raised as income tax revenue.

The income tax contribution of individual has occupied the first position in income tax revenue of Nepal. In F.Y 2002/03 Rs 3362.2 millions as raised from individuals as income tax. Income Tax from Individual has been continuously increasing. In the Fiscal year 2006/07 out of the income tax revenue of Rs15731.8 millions Rs 5234.4 millions have been from individuals. It is about 33.27% contribution by individuals in the income tax revenue.

Income tax from public enterprises has occupied second position for its contribution to income tax revenue of Nepal. In F.Y 2002/03 out of the income tax revenue of Rs 8131.9 millions Rs1251.0 millions has been contributed by public enterprises. Its contribution has been increasing trend up to 2003/04 .Then it is in decreasing trend. In F.Y 2006/07 out of the total income tax revenue is Rs 15731.8 millions Rs 1019.7 millions has been contribution by public enterprises. The contribution of income tax from public enterprises to total income revenue has been computed to be 6.48%.

Private corporate body's occupied third position out of the total income tax revenue in F.Y 2002/03 private corporate bodies paid Rs. 1236.3 millions out of Rs. 8131.9 millions. Its contribution has been increasing every year. In F.Y 2006/07 out of the total Income tax revenue of Rs 15731.8 millions, Private corporate bodies have contributed Rs 5717.1 millions. The contribution of private corporate bodies for the F.Y 2006/07 comes to be 36.34%.

Income tax from employment (remuneration) has occupied fourth place in the income tax revenue of Nepal. In F.Y 2002/03 total income tax revenue was Rs. 8131.9 millions and Rs.1252.6 millions was contributed by employment income tax. Income tax from employment has been increasing in all the fiscal year. The contribution of tax revenue BY employment income in the F.Y 2006/07 was Rs2007.9 which is12.76% of total revenue.

Tax on interest has occupied fifth position in total income tax revenue F.Y 2002/03 Rs 864.0 millions was collected as tax on in interest out of Rs. 8131.9 millions of total income tax revenue. Interest tax has been decreasing in all the year 2003/04 and is slowly increasing after 2004/05. In F.Y 2006/07out of the total income tax revenue of Rs 15731.8 millions Rs 1054.9 millions has been collected as interest tax which is to be 6.7%. The contribution of other

taxes to income tax reserve is also seen to be gradually increasing each year. Other tax is seen to be Rs 165.8 million in 2001/02 while it is Rs 697.8 in the year 2006/07 which is 4.43%.

Semi public enterprises and other taxes have very much insignificant contribution in total income tax revenue. Contribution of semi public enterprises to total income tax revenue has been nil throughout all the years.

#### 4.1.4 Tax Revenue and GDP of Nepal.

Nepal is one of the lowest taxed economics in the World. The moderate tax GDP ratio is ranged from 15% to 18% in other developing countries. Below presented table shows the scenario of tax GDP ratio for reference period of 2002/03 to 2006/07.

**Table No.5**  
**Tax Revenue as Percentage of GDP**  
**From**  
**F.Y 2002/03 to F.Y 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>GDP</b>	<b>Tax Revenue</b>	<b>Tax Revenue as % of Total of GDP</b>
2002/03	421043	42586.9	10.11
2003/04	428451.8	48173.0	11.24
2004/05	446957.4	54104.7	12.10
2005/06	472949.3	57430.4	12.14
2006/07	485581.6	71127	12.14

Source: Economic Survey of various years, Ministry of Finance, Government of Nepal

**Note:** GDP is taken from as current price .The share of tax revenue as GDP is considered as satisfactory. From the F.Y 2002/03 to F.Y 2006/07 it is slowly increasing from 10.11% to 14.64%. In the F/Y 2002/03 the share of tax revenue was 10.11% and was 14.64% in 2006/07.

In the fiscal year 2002/03 GDP was 421043 which are also increasing gradually. In the F/Y 2006/07 it was Rs 485581.6 million. The average tax GDP ratio in Nepal for the period of the year 2002/03 to 2006/07 is 12.056%.

#### **4.1.5 Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal**

Nepal is facing a serious and growing fiscal resource gap and need for mobilizing additional financial resources from domestic sources through taxation has been urgent. The base for levying taxes may be consumption income and capital. Taxes of income and capital are known as direct tax whereas the taxes on consumption are known as indirect tax. Tax structure of Nepal is composed of both direct and indirect taxes. Income tax has been playing a vital role to generate government revenue for the economic development of nation.

**Table No.6**  
**Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax**  
**Revenue of Nepal**  
**From**  
**Fiscal Year 2002/03 to F.Y 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Income Tax Revenue</b>	<b>Total Revenue</b>	<b>%</b>	<b>Total Tax Revenue</b>	<b>%</b>	<b>Direct Tax Revenue</b>	<b>%</b>
2002/03	8131.9	56229.8	14.46	42586.9	19.09	10105.7	80.47
2003/04	9514.5	62331.0	15.26	48173.0	19.75	11912.5	79.87
2004/05	10466.1	70122.7	14.92	54104.7	19.34	13071.9	80.06
2005/06	10938.1	72282	15.13	57430.4	19.05	13968.1	78.31
2006/07	15731.8	72786	21.61	71127	22.12	18980.5	82.88

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

The percent contribution of income tax in total revenue of Nepal has been presented in above table 6. Its contribution on total revenue has fluctuating trend. In F.Y 2002/03 total revenue was Rs 56229.8 millions and income tax revenue was Rs 8131.9 millions. It was about 14.46% of total revenue of Nepal. In F.Y 2006/07 the total revenue was Rs 72786 millions and income tax revenue was Rs15731.8 millions which is 21.61% of total revenue.

The percent contribution of income tax in total tax revenue is presented in table 6. In the fiscal year 2002/03 out of the total tax revenue of Rs. 42586.9 millions Rs. 8131.9 millions has been contributed by income tax revenue. It is 19.09 % contribution by income tax revenue I tax revenue of Nepal. In the fiscal year 2006/07 out of the total tax revenue of Rs 71127 millions Rs15731.8 millions has been contributed by income tax revenue. It is 22.12 % contribution by income tax revenue I tax revenue of Nepal.

The present contribution of income tax revenue in direct tax revenue is presented in above table 6. In F.Y 2002/03 out of total direct tax revenue of Rs 10105.7 millions Rs 8131.9 millions has been contributed by the income tax revenue. It is 80.47% of direct tax revenue was collected as income tax revenue. In F.Y 2006/07 out of total direct tax revenue of Rs 18980.5 millions Rs 15731.8 millions has been contributed by income tax revenue. It is 82.88% of total direct tax revenue.

#### **4.1.6 Composition of Tax and Non Tax Revenue in Nepal**

Total revenue of Nepal consists of Tax revenue and non-tax revenue. Tax revenue consists of customs, excise, Sales tax, income tax, Land revenue and registration and miscellaneous taxes. Similarly Non tax revenue comprises of charges, fees, fines, and forfeiture, receipts from sale of commodities and services, dividend, royalty and sale of fixed assets, principal of interest payments and others.

**Table No.7**  
**Composition of Tax and Non Tax Revenue in Nepal**  
**from**  
**F.Y 2002/03 to F.Y 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>Tax Revenue</b>	<b>In Percent%</b>	<b>Non Tax Revenue</b>	<b>In Percent%</b>
2002/03	56229.8	42586.9	75.74	13642.9	24.26
2003/04	62331	48173.0	77.28	14158.0	22.72
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282	57430.4	79.45	14851.6	20.56
2006/07	72786	71127	97.72	16590	22.79

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

Above table shows that the composition of tax and non tax revenue in Nepalese structure for the five years i.e. from F.Y 2002/03 to F.Y 2006/07. In Nepalese revenue structure, tax revenue has been always nearly three times of non tax revenue. The amount of tax revenue has been increasing per year, but contribution percent of tax revenue in total revenue has been fluctuating. In F.Y 2002/03 out of the total revenue Rs 56229.8 million i.e 75.74% Rs 42586.9 millions has been contributed by tax revenue. It contribution in F.Y 2006/07 out of

total revenue of Rs 72786 millions, Rs 71127 millions has been collected from tax revenue which is 97.72%.

Non tax revenue has the lowest contribution as compared to tax revenue. Its contribution to total revenue has been fluctuation. In F.Y 2002/03 Rs 13642.9 million has been collected as non tax revenue out of total revenue Rs 56229.8 millions which is about 24.26 % of total revenue. In F.Y 2006/07 out of the total revenue Rs 72786 millions Rs16590 millions has been contributed from non tax revenue which is 22.79%.

#### 4.1.7 Resource Gap in Nepal

Like other developing countries Nepal has been suffering from resource constraint, mass constraint, rapid growth of population, aggressive dependence of agriculture, subsistence standard etc. Despite planned development efforts of our four decades.

**Table No.8**  
**Resource Gap in Nepal**  
**From**  
**F.Y 2002/03 to F.Y 2006/07**

Rs. in million

<b>Fiscal Year</b>	<b>Total Expenditure(A)</b>	<b>Total Revenue(B)</b>	<b>Resource Gap (C)</b>	<b>Foreign Grants (E)</b>	<b>Resource Gap [C-E]</b>	<b>Foreign Loan (D)</b>	<b>Resource Gap[E-D]</b>
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89442.6	62331.0	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	34437.7	14391.2	20046.5	9266.1	10780.4
2005/06	110889.2	72282	38607.2	13827.5	24779.7	8214.3	16565.4
2006/07	133604.6	72786	60818.6	15800.8	45017.8	10053.5	34964.3

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

In Nepal, the source of mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is continuously growing. Expenditure is growing instead of the low revenue performance in Nepal. That is why the country is increasing burden of foreign loan widening trend of the different resource gap is showed in above table 8.

As showed the above table, resource gap of Rs 27776.3 million in F.Y 2002/03 reached to the Rs 60818.6 million in the F.Y 2006/07. It is continuously increasing trend. Resource gap (after considering foreign grants) was Rs 16437.2 in the starting year 2002/03. It was decreased in the fiscal year 2003/04 and then started increasing. The government takes internal and external grants to meet deficit foreign grants reached Rs 11339.1 million in Fiscal year 2002/03 and Rs15800.8 million in F.Y 2006/07. After foreign grants financing resource gap was Rs 16437.2 million in the Fiscal year 2002/03 and increased to Rs 45017.8 million in the F.Y 2006/07. The government takes internal and external loans to meet deficit finance. Foreign loans reached Rs 4546.4 million in the fiscal year 2002/03 it was increasing in the Fiscal year 2003/04, 2004/05 and then started decreasing. In F.Y 2002/03 the resource gap was Rs11890.8 million and was 34964.3 million in 2006/07. The above analysis showed a clear indication of the serious and grouping financial resource gap problem in Nepal. The increasing magnitude of Resource gap clearly indicates that there is an urgent need of mobilizing additional resources. The income tax has appeared as one of the most effective fiscal policy instruments to mobilize additional resources and for achieving the desires development objectives of Nepal. Increasing resource gap indicates that it is necessary to mobilize additional domestic resources ultimate and the best measures to fill up the resource gap are to increase public revenue through effective tax system.

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

### **4.2.1 Introduction of PEs**

Public enterprises are an important form of business organization which is controlled and operated by the government. In such enterprises either the government is the sole owner of business or most of the shares are owned by the government. In simple words, it can be understood as a form of business which denotes an undertaking controlled and operated by the government as the sole owner or the major shareholders. Different experts and institutions have defined public enterprises in different sense.

United Nations has defined PEs as the organization, namely government enterprises and public corporation which are entirely or mainly owned and controlled by the authorities



consisting of establishments which by virtue of their kind of activities. Technology and mode of operation are classified as industries (Profile of PES in Nepal, 1978)

Seoul workshop of performance of public enterprise in Asia (1975) defined public enterprises as “Public enterprises which are owned and /or controlled by public authorities which authorities and whose outputs are marketed”.

According to A.H Hanson public enterprises mean “Ownership and operation of industrial, agriculture, financial and commercial undertakings”.

World development Report 1998 defined PEs as “State owned enterprises are financially autonomous and legally distinct entities wholly or partly owned by the government”.

#### **4.2.2 Performance of PEs**

Performance of PES in Nepal has remained poor. It is seen that continued inefficiency and ineffectiveness of PEs has a profound negative impact on the economy particularly on the issues of sustainability and their overwhelming demand on government resources. Large amount of resources are invested in PEs by Nepal government. The performance of PEs in Nepal is presented below.

**Table No.9**  
**Performance of PEs**  
**From**  
**F.Y 2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Gross profit</b>	<b>Capital Employed</b>	<b>Gross % of Capital Employed</b>
2002/03	-1614.4	97232.0	-1.66
2003/04	-2524.1	96904.0	-2.60
2004/05	2130.3	176673.8	1.20
2005/06	1688.7	188464.2	.90
2006/07	9867.3	196671.8	5.02

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

Gross profit of PEs is in fluctuating trend during the period of the study from F.Y 2002/03 to F.Y 2006/07. The gross profit is seen in negative trend and then it is in positive trend but in fluctuating manner from F.Y 2004/05 to F.Y 2006/07.

Capital employed of PEs is in increasing trend. It was Rs97232 million in F.Y 2002/03. Then it started to increase and reaches to Rs196671.8 million in F.Y 2006/07.

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

**Table No.10**  
**Contribution of Income Tax from PEs to GDP of Nepal**  
**From**  
**F/Y 2002/03 to 2006/07.**

**Rs. in million**

<b>Fiscal Year</b>	<b>GDP</b>	<b>Income Tax</b>	<b>Income Tax from PEs as % of GDP</b>
2002/03	421043	1251.0	.29
2003/04	428451.8	2056.6	.48
2004/05	446957.4	1332.46	.30
2005/06	472949.3	195.7	.04
2006/07	485581.6	1019.7	.20

Source: Economic Survey of various years, Ministry of Finance, Government of Nepal

The contribution of income tax from PEs in GDP is presented in above table 10. The share of income tax from PEs. In the GDP of Nepal is very low. The share of income tax form PEs in GDP lays 0.04% to 0.48% during the study period. Its share was 0.29% in F.Y 2002/03 and 0.20% in F.Y 2006/07. The contribution of income tax from PEs in GDP is in fluctuating trend in last 5 years.

#### 4.2.4 Contribution of Income Tax from PEs to Government Revenue of Nepal

**Table No.11**  
**Contribution of Income Tax from PEs to Government Revenue of Nepal**  
**From**  
**F/Y 2002/03 to F/Y 2006/07**

Rs. in million

<b>Fiscal Year</b>	<b>Government Revenue</b>	<b>Income Tax From PEs</b>	<b>Income Tax from PEs as % of Government Revenue</b>
2002/03	56229.8	1251.0	2.22
2003/04	62331.0	2056.6	3.30
2004/05	70122.7	1332.4	1.90
2005/06	72282	195.7	.27
2006/07	72786	1019.7	1.4

Source: Economic Survey of various years, Ministry of Finance, Government of Nepal

The contribution of Income Tax from PEs in government revenue is presented in table 11. The share of income tax from PEs in government revenue is very low. The maximum and minimum contribution percentage of income tax from PEs in government revenue is 3.30% and .27% in F.Y 2003/04 and F.Y 2005/06 respectively. The percentage of income tax from PEs in government revenue was in the fluctuating trend. The percentage contribution in F.Y 2002/03 is 2.22% and 1.4% in 2006/07.

#### 4.2.5 Contribution of Income Tax from PEs to Tax Revenue of Nepal.

**Table No.12**  
**Contribution of Income Tax from PEs to the Revenue of Nepal**  
**From**  
**F/Y 2002/03 to F/Y2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Tax Revenue</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Tax Revenue</b>
2002/03	42586.9	1251.0	2.94
2003/04	48173.0	2056.6	4.27
2004/05	54104.7	1332.4	2.46
2005/06	57430.4	195.7	.34
2006/07	71127	1019.7	1.4

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

The contribution of Income Tax from PEs in Tax revenue is presented in table 12. The share of income tax from PEs in Tax revenue is low. The maximum and minimum contribution percentage of income tax from PEs in Taxt revenue is 4.27% and .34% in F.Y 2003/04 and F.Y 2005/06 respectively. The percentage of income tax from PEs in Tax revenue was in fluctuating trend. The percentage contribution in F.Y 2002/03 is 2.94% and 1.4% in 2006/07.

#### 4.2.6 Contribution of Income Tax from PEs to Direct Tax Revenue

**Table No.13**  
**Contribution of Income Tax from PEs to Direct Tax Revenue**  
**From**  
**F/Y 2002/03 to 2006/07**

Rs. in million

<b>Fiscal Year</b>	<b>Direct Tax Revenue</b>	<b>Income Tax from Public Enterprises</b>	<b>Income Tax from PEs as % of Direct Tax Revenue</b>
2002/03	10105.7	1251.0	12.38
2003/04	11912.6	2056.6	17.26
2004/05	13071.8	1332.4	10.19
2005/06	13968.1	195.7	1.40
2006/07	18980.5	1019.7	5.37

Source: Economic survey of various years, Ministry of finance

The contribution of income tax from PEs in direct tax revenue of Nepal is presented in the above table. The percentage contribution of income tax from PEs in direct tax revenue was higher than the percentage contribution in GDP, government revenue and tax revenue. It is between 1.40% and 17.26% during the study period in the year 2005/06 and 2003/04. Its share is 12.38% in fiscal year 2002/03 and reached to 5.37% in fiscal year 2006/07. The average percentage contribution is 9.32% during the study period of five years.

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

**Table No.14**  
**Contribution of Income Tax from PEs to Total income Tax**  
**From**  
**F/Y 2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Total Income Tax</b>	<b>Income Tax from PEs</b>	<b>Income Tax from PEs as % of Total Income Tax</b>
2002/03	8131.9	1251.0	15.38
2003/04	9514.5	2056.6	21.62
2004/05	10466.1	1332.4	12.73
2005/06	10938.1	195.7	1.79
2006/07	15731.8	1019.7	6.48

Source: Economic Survey of various years, Ministry of Finance , Government of Nepal

The contribution of income tax from PEs in total income tax revenue of Nepal is 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 and direct tax revenue. It was between 1.79% and 21.63% during the study period. Its share was 15.38% in F.Y 2002/03 and reached to 6.48% in fiscal year 2006/07. The average percentage share of income tax from public enterprises in income tax revenue was 11.6% during the period of five years.

#### 4.2.8 Income Tax from PEs on corporate Income Tax.

Public enterprises are fully owned by the government but in semi public enterprises the government owns by a major portion (51 percent or more) public limited companies are established and managed by the owners. Tax collection from these sectors is known as corporate income tax. The contribution by public enterprises in total income tax stood in the second position of total corporate income tax. The following table shows the income tax collection form public enterprises.

**Table No.15**  
**Income Tax from PEs on Corporate Income Tax**  
**From**  
**F/Y 2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Corporate Income Tax from Government and Private enterprises</b>	<b>Income Tax from PEs</b>	<b>% of Total Income Tax from PEs</b>
2002/03	2487.3	1251.0	50.30
2003/04	3587.9	2056.6	57.32
2004/05	3800.2	1332.4	35.22
2005/06	3600	195.7	5.44
2006/07	6736.8	1019.7	1.51

Source: Economic Survey of various years, Ministry of Finance, Government of Nepal

During 2002/03 the revenue from PEs was Rs 1251.0 million then it is increased to Rs.2056.6 million in F.Y 2003/04 again it is decreased to Rs.1332.4 million in F.Y 2004/05. In F/Y 2005/06 it was 195.7 million and in F/Y 2006/07 it was 1019.7 million. The



percentage of income tax from public enterprises is increasing in 2003/04 and was decreasing every year. In the every early days public enterprise have been regarded as major parts of corporate income tax whose share have been regarded as major parts of corporate income tax whose share was 50.30% of corporate income tax in F.Y 2002/03 .in fiscal tear 2006/07 public enterprises contributed 1.51% of corporate income tax.

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

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

Communication is one of the basic infrastructures of national development, which help make (people sensitive, active, enthusiastic and skillful. At present these are personal meeting, postal services, telecommunications and news papers-mail and internet.

Telecommunications service is a vital medium of communication in the world .In Nepal the slogan of “communication for development “ has become a catch word for all those included in the development of various means of communications services. Development telecommunication services have received a place of importance in the development plans of our country.

The development functions were transferred to a board which was known as the NTC. Board in 1969 and its resource base considerably strengthened in terms of its ability to bundle modern telecommunication services in Nepal. Later in 1975 the telecommunication board was converted into public corporation, which was aimed to be 51 % in Nepal Government, 25 percent share to top staff of NTC and 24 % ordinary share to public respectively according communication corporation act 1971. But it was failed to implement from the date of 15 June 1975, Government has run it in cent percent ownership under the communication corporation act 1971 (Acharya, 2056) because of the increasing demand of the telephone line, NTC has prepared a program to distribute a large number of telephone during the tenth five year plan. To fulfill these objectives, NTC will establish new telephone exchanges .the number of telephone exchanges has increased and the total distribution line hoped to increase the capacity. Today’s cellular mobile services have been started from the commercial as well as personal point of view (Telecom, news paper Bi- monthly).

### **4.3.2 Nepal Telecom: An Introductory Profile**

Nepal Doorsanchar company Limited (Nepal Telecom) was registered on 2060-10-22 under the company act 2053 and the notice to this effect was published in Nepal Gazette dated 26<sup>th</sup> Chamita 2060, after dissolving then Nepal Telecommunications Corporation (NTC). However the company name was officially effective from the 1<sup>st</sup> of Baisakh (13<sup>th</sup> April 2004) and the general public knew it by the name of Nepal Telecom as its registered trademark.

#### **Mission**

Nepal Telecom as a progressive customer spirited and customer responsive entity is committed to provide nation wide reliable telecommunication services to serve as an impetus to the social ,Political and economic development of the country.

#### **Vision**

“Vision of Nepal Telecom is to remain a dominant player in telecommunication sector I the Country while also extending reliable and cost effective services to all”.

#### **Goal**

“Goal of Nepal Telecommunication is to provide cost effective telecommunication caution services to every nook and corner of the country”. (Nepal Telecommunication, annual Report 2006).

### **4.3.3 Services Provided by Nepal Telecommunication**

- ) Local call
- ) Domestic telephone
- ) Local leased lines
- ) National trunk calls
- ) International Telegram
- ) International telex
- ) Operator –Assisted International telephone
- ) Packet switching Data Communication
- ) ISDN (Integrated services Digital communication)

- ) Pay Phone
- ) Intelligent Network services
- ) PCC Easy Call Services
- ) AFS advanced free phone services
- ) Mobile
- ) Post paid
- ) Prepaid
- ) Roaming(Incoming and outgoing)
- ) SMS
- ) E- Mail
- ) Yearly E-mail package
- ) Internet
- ) Dial up Internet access
- ) PSTN dial up
- ) Fixed hour package
- ) Night surfing package
- ) Fixed hour /month package
- ) Unlimited single user package
- ) PSTN bills in the internet
- ) Post paid mobile bills
- ) Telephone Inquiry
- ) ISDN dial up
- ) Lease Line Connectivity
- ) Web SMS

Most of PEs in Nepal is suffering from the loss situation NTC is only such PEs which is operating under the net profit is in every fiscal year from establishment .NTC is the top most income tax payer enterprise payer in Nepal. Telecom is providing modern telecommunication services to the Country and other it is operating in Profit contributing in the government revenue by various ways.

#### **4.3.4 Role of Nepal Telecom**

Telecommunication is one of the most quickest ,cheapest and scientific means of communication in the modern world without the facility of telecommunication government could not run the economic governmental and development activities other means of communication such as postal services ,transportation etc. is slower ,expensive and less convenient but the telecommunication is reliable means of communication. It brings co-ordination among different government entities, which ultimately promotes administrative efficiency can be expected to enhance the productivity of the government decision and a better utilization of society and resources as well as mobilization of labor force for the achievement of national goals.

Telecommunication links to overseas countries, which helps I the development of tourist industries, main sources of foreign exchange earnings, Not only it contributes in national economy, but also helps to bring national unity among the national and international people creating brotherhood relationship among the people. Telecommunication has also contributed a lot for development of social condition of the country because it is a means of the social condition of the accumulation, earnings and transport of knowledge between people.

In the developing country like Nepal, without contributions of telecommunications in development of the country can not explain .In Nepal there is not only any sector where telecommunication has not played role. The effects of telecommunication on the rural areas and there contributions to rural development are potentially important, yet rather different to measure. NTC has played an important role in agriculture sector also by providing information on prices and market situations. Therefore telecommunication has played a wonderful role in developing and developed countries to develop and to attain national objectives.

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

The contribution of income tax from NTC in GDP is in fluctuating trend. It is known that the percentage contribution of NTC in GDP is less then in comparison to percentage contribution of PEs to GDP. Percentage contribution of NTC to GDP is very small but it is not small in comparison PE's income tax contribution to GDP. This is presented in the table below.

**Table No.16**  
**Contribution of Income Tax from NTC to GDP of Nepal**  
**From**  
**F/Y 2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>GDP</b>	<b>Income Tax From NTC</b>	<b>Income Tax From NTC as % of GDP</b>
2002/03	421043	1011.55	.24
2003/04	428451.8	1175.33	.27
2004/05	446957.4	1379.06	.31
2005/06	472949.3	1907.08	.40
2006/07	485581.6	2330.6	.47
Total	2254983.1	7797.4	.34
Average	450996.62	1559.48	.34

Source: Economic survey of various years, Ministry of Finance, Annual report of NTC.

J The share of income tax from NTC to GDP of Nepal has increasing trend. It was 0.24 percent in 2002/03 and 0.47percent in FY 2006/07. It average contribution to GDP was 0.34 in the study period. Income tax from NTC significantly affects the GDP. Its minimum and maximum percentage of contribution to GDP was 0.24 % and 0.47 % respectively.

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

Table shows that the share of Income Tax from NTC in GDP lies from 0.193% to 0.293% during the study period it's share was 0.293% in F.Y 1995/96 and Reached to 0.272% in F.Y 2004/05.It's contribution was 0.293% in F.Y 1995/96 And started to decrease and reached to 0.192% in F.Y 1999/00 then its Started to increase and reached to 0.271% in F.Y

The percentage contribution of income tax fro PEs in government revenue is fluctuating trend. The contribution of income tax from NTC to government revenue was increasing every

year .The share of income tax from NTC in government revenue lies between 1.56% and 2.52% percent during the study period that it is shown in the following table.

**Table No.17**  
**Contribution of Income Tax from NTC to Government Revenue of Nepal**  
**From**  
**F/Y 2002/03 to 2006/07**

<b>Rs. in million</b>			
<b>Fiscal Year</b>	<b>Government Revenue</b>	<b>Income Tax from NTC</b>	<b>Income Tax From NTC as % of Government Revenue</b>
2002/03	56229.8	1011.55	1.80
2003/04	62331.0	1175.33	1.89
2004/05	70122.7	1379.06	1.97
2005/06	72282	1907.08	2.6
2006/07	72786	2330.6	3.2
Total	333751.5	7797.4	2.33
Average	66750.3	1559.48	2.33

Source: Economic survey of various years, Ministry of Finance, Annual report of NTC.

The contribution of income tax from NTC in government revenue is only 2.33% and from other taxes is 97.67% in average percentage. The amount of income tax revenue of NTC is increasing every year. The percentage of tax from NTC IS 1.80% In F/Y 2002/03 and 3.2% In F/Y 2006/07. Government revenue is increasing drastically every year where as income tax revenue from NTC is increasing soft and slow manner.

This analysis reflects the Increasing trend of both corporate income tax revenue and income tax from NTC respectively.

#### 4.3.7 Contribution of income tax from NTC to total tax revenue of Nepal.

The percentage share of income tax from NTC in tax revenue of Nepal is slightly higher than the percent contribution to GDP by government revenue. It lies between 2.22 percent and 3.32 percent during the study period. The percentage contribution if income tax from NTC is in fluctuating trend which is known by the table.

**Table No.18**  
**Contribution of Income Tax from NTC to Tax Revenue of Nepal**  
**From**  
**2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Total Tax Revenue</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Tax Revenue</b>
2002/03	42586.9	1011.55	2.38
2003/04	48173.0	1175.33	2.44
2004/05	54104.7	1379.06	2.55
2005/06	57430.4	1907.08	3.32
2006/07	71127	2330.6	3.27
Total	273422	7797.4	2.85
Average	54684.4	1559.48	2.85

Source: Annual Report of NTC and economic survey of various years, Ministry of Finance.

The above table determines the place of income tax from NTC in total tax revenue of Nepal. The share of income tax from NTC was recorded 2.38% in fiscal year 2002/03. The

percentage of contribution by NTC income tax revenue show increasing trend but and slightly decreases in the F/Y 2006/07 during the study period of 5 years. The average contribution of income tax from NTC revenue is 2.85 percent above table shows that income tax from NTC significantly affects the total tax revenue.

In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue, because of low level of income and standard living in the country. There is substantial contribution of income tax in direct tax of Nepal. The contribution of income tax from NTC in direct tax revenue of Nepal is presented in table 18.

**Table No.19**

**Contribution of Income tax from NTC to Direct Tax Revenue of Nepal  
From  
F/Y 2002/03 to 2006/07**

**Rs. in million**

Fiscal Year	Direct tax Revenue	Income Tax From NTC	Income Tax From NTC as % of Direct Tax Revenue
2002/03	10105.7	1011.55	10.00
2003/04	11912.6	1175.33	9.87
2004/05	13071.8	1379.06	10.54
2005/06	13968.1	1907.08	13.65
2006/07	18980.5	2330.6	12.28
Total	78636.2	7797.4	9.9
Average	15727.24	1559.48	9.9

Source: Economic survey of various years, Ministry of Finance, GON, Annual Report of NTC

The table shows the position of income tax from NTC in direct tax revenue of Nepal. The mean contribution of income tax from NTC is 9.9 percent. The trend of direct tax and income from NTC is decreasing in FY 2003/04 and again in FY 2006/07. The above figure shows



that the income tax from NTC has a significant importance in total direct tax revenue. The percentage contribution by NTC was 10 percent in FY 2002/03 and was 12.28 percent in FY 2006/07.

#### **4.4.8 Contribution of Income Tax from NTC to Total Tax revenue**

The role of income tax in our country is increasing almost every year. The continuous improvement and the trend of revenue from income tax are increasing. In our total tax structure, individual occupies the highest position among different types of income tax. Thus, the share of corporate income tax is required to increase income tax from NTC. Total tax revenue is presented in table 20.

**Table No.20**  
**Contribution of Income Tax from NTC to Total Income Tax**  
**From**  
**F/Y 2002/03 to 2006/07**

<b>Rs. in Million</b>			
<b>Fiscal Year</b>	<b>Total Income Tax</b>	<b>Income Tax from NTC</b>	<b>Tax from NTC as % of Total Income Tax</b>
2002/03	8131.9	1005.33	12.44
2003/04	9513.5	1175.33	12.36
2004/05	10466.1	1379.06	13.17
2005/06	10939.4	1907.08	17.44
2006/07	15731.8	2330.6	14.8
Total	54781.7	7797.4	14.23
Average	10956.34	1559.48	14.23

Source: Economic Survey of Various Years, Ministry of Finance, GON

The table shows that contribution of income tax from NTC on total income tax revenue of Nepal. The percentage of income tax from NTC on total income tax revenue was viewed from 12.36 percent to 17.44 percent. In FY 2002/03, the percentage contribution of income tax from NTC on total income tax revenue was recorded as 12.44%. Then the trend went up and down. Thus, the percentage contribution of NTC decreased to 12.36 percent in FY

2003/04. After the FY 2003/04, it started to increase and reached 17.44 percent in FY 2005/06 in f/y 2006/07 it again decreased to 14.8%. The average percentage contribution by income tax from NTC in total income tax revenue is 14.23 percent for 5 years. It means that income tax from NTC significantly affects the total income tax.

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

Corporate tax is a major part of income tax. It is important for socio economic development of the nation. The contribution percentage of income tax from the NTC to corporate income tax is in fluctuating trend, but its percentage is very significant. Its contribution is 41.09 percent and not less than 15.69 percent. The average contribution percentage share on corporate income tax is 29.80 percent. Contribution of income tax from NTC to corporate income tax is shown in table No. 21

**Table No.21**  
**Contribution of Income Tax from NTC to Corporate Income Tax**  
**From**  
**F/Y 2002/03 to 2006/07**

<b>Rs. in million</b>			
<b>Fiscal Year</b>	<b>Corporate Income Tax</b>	<b>Income Tax from NTC</b>	<b>Income Tax from NTC as % of Corporate Income Tax</b>
2002/03	2487.3	1011.55	40.67
2003/04	3587.9	1175.33	32.76
2004/05	3800.2	1379.06	36.29
2005/06	3600	1907.08	52.97
2006/07	67368	2330.6	3.45
Total	80843.4	7797.4	10.36
Average	16168.68	1559.48	10.36

Source: Economic survey of various years, Ministry of Finance, Annual report of NTC.

The table shows the percentage contribution pattern. It was 40.67% in fiscal year 2002/03. It was decrease and went up to 32.76 % in fiscal year 2003/04 then it start to increase and reached up to 52.97% in F.Y 2005/06 again it start to decrease and reached up to 3.45% F.Y 2006/07. The average contribution of NTC as percent of corporate income tax is 10.36% for the study period. The analysis reflects the increasing trend of both corporate income tax revenue and income tax from NTC respectively. The figure shows the trend of corporate income tax and income tax form NTC.

#### **4.4.10 Contribution Income Tax from NTC as PEs Income Tax**

PEs was established with the objective of contributing toward fulfilling the government responsibility in the newly emerging socio –economic content. NTC is one public utility enterprises (but it is converted in the company 2060-10-22), which is leading enterprise in telecommunication sector. The amount of income tax, which was paid to the government, was found increasing in every fiscal year. Below presented table shows the place of NTC on income tax from PEs.

**Table No.22**  
**Contribution of Income Tax form NTC to PEs Income Tax**  
**From**  
**F/Y 2002/03 to 2006/07**

**Rs. in million**

<b>Fiscal Year</b>	<b>Income Tax From PEs</b>	<b>Income Tax from NTC</b>	<b>In come Tax from NTC as % of PEs Income Tax</b>
2002/03	1251.0	1011.55	80.86
2003/04	2056.6	1175.33	57.15
2004/05	1532.4	1379.06	90.01
2005/06	195.7	1907.08	974
2006/07	1019.7	2330.6	228
Total	6055.4	7797.4	128.76
Average	1211.08	1559.48	128.76

Source: Economic survey of various Year, Ministry of Finance, Annual report of NTC.

Above table shows that the contribution of income tax from NTC on total income tax from PEs during 2002/03 to F.Y 2006/07. The contribution of NTC to total income tax revenue form PEs was highest in F.Y 2005/06 the share of NTC to total income tax from PEs was 974% the percentage share of NTC on income tax from PEs went to 57.15% in F.Y 2003/04 then it start to increase. In f/y 2006/07 it reached up to 228 % .The means percentage contribution by income tax from NTC in PEs is 128.76%. It means that income tax from NTC is significantly affects the income tax from PEs.

## Major Findings

The major findings of the study are pointed out as follows.

) Nepalese revenue structure consists of tax and non-tax revenues. Tax on consumption and product of goods and services has occupied first place regarding its contribution to total revenue of Nepal. The mean contribution of tax on consumption and product of goods and services over the 5 years period is 37.874 percent of the total revenue of Nepal. Non tax revenue and tax on property profit and income and customers has average 22.62 percent 17.44 percent and 23.37 percent respectively. Land revenue and registration has the lowest average contribution of 2.78 percent in total revenue of Nepal.

) Nepalese tax revenue is the composition of direct and indirect tax revenue. Average contribution of direct and indirect revenue to total tax revenue is 26.68 percent and 73.32 percent during the F.Y 2002/03 to F.Y. 2006/07 respectively.

) Nepalese income tax structure is formed by contribution of income tax from public enterprises, private corporate bodies, individual's taxes on employment tax on interest and other taxes. Contribution of individuals has occupied first position in total income tax revenue. The mean contribution of income tax from individuals in total income tax revenue from F.Y 2002/03 to F.Y 2006/07 has been computed to be Rs. 4058.2 million which holds the first place. Private corporate bodies, employment, public enterprises, tax on interest, other taxes and semi public enterprises have occupied second, third, forth, fifth, six and seventh position in total income tax revenue of Nepal respectively.

) Tax revenue GDP ratio in FY 2002/03 was 10.11percent and it was 12.14 percent in 2006/07 it shows that the tax GDP ration of Nepal is not so good.

) Contribution of income tax has been in fluctuation trend. It's contribution in the five years revenue 16.276 percent, 19.87 percent and 80.318 percent in total revenue, tax revenue and direct tax revenue in Nepal respectively.

) Total revenue of Nepal consisted of tax revenue and non tax revenue. In FY 2002/03 56229.8 out total revenue Rs 42586.9 million 75.74% was contributed by tax revenue and Rs 13642.9 million which is 24.26 percent was contributed by non-tax revenue. In FY 2006/07 97.72 percent and 22.79 percent contributed by tax and non tax revenue respectively. The mean contribution of tax and non tax revenue during the 5 years period 81.47 percent and 27.038 percent respectively. Tax revenue has the largest contribution in total tax revenue of

Nepal. In Nepalese revenue structure tax revenue has always been nearly three times of our non tax revenue.

) Nepalese government expenditure is increasing at the faster rate than the increase in revenue. Therefore the resource gap has existed in Nepalese economy and it is increasing trend. Resource gap in FY 2006/07 was 34964.3 million, had extended from 11890.8 million in FY 2002/03.

) Income tax from PES/GDP was 0.29 percent in FY 2002/03 and it was 0.20 percent in FY 2006/07. Its average contribution to GDP was 0.262 percent and it's minimum and maximum percentage contribution to GDP was 0.04 percent and 0.48 percent respectively.

) Income tax from PES/Government revenue was 2.22 percent in FY 2002/03 and it was 1.4 percent in FY 2006/07. Its average contribution to government revenue was 1.818 percent and its minimum and maximum percentage of contribution to government revenue was .27 percent and 3.30 percent respectively.

) Income tax from PES/Tax revenue was 2.94 percent in FY 2002/03 and 1.4 percent in FY 2006/07. Its average contribution to tax revenue was 2.282 percent and its minimum and maximum percent of contribution to government revenue was .34 percent and 4.27 percent respectively.

) Income tax from PES/Direct tax revenue was 12.38 percent in FY 2002/03 and it was 5.37 percent in FY 2006/07. Its mean contribution to direct tax revenue was 8.246 percent and its minimum and maximum percentage of contribution to direct tax revenue was 1.40 and 17.26 percent respectively.

) Income tax from PES/Total income tax was 15.38 percent in FY 2002/03 and 6.48 percent in FY 2006/07. The mean contribution to total income tax revenue 11.6 percent and its minimum and maximum percentage of contribution to total income revenue was 1.79 percent and 21.62 percent respectively.

) Income tax from PES to corporate income tax was 50.30 percent in FY 2002/03 and 5.44 percent in FY 2006/07. The mean contribution of income tax from PES to corporate income tax was 29.96 percent. Its minimum and maximum percentage of contribution to corporate income tax was 1.51 percent and 57.32 percent respectively.

) The share of income tax from NTC to GDP of Nepal has increasing trend. It was 0.24 percent in 2002/03 and 0.47percent in FY 2006/07. It average contribution to GDP was 0. 34

in the study period. Income tax from NTC significantly affects the GDP. Its minimum and maximum percentage of contribution to GDP was 0.24 percent and 0.47 percent respectively.

) It had been observed that contribution from NTC income tax to government revenue was 1.80 percent in FY 2002/03 and 3.2 percent in FY 2006/07 respectively. Its average contribution to government revenue was 2.33 for the study period. Its minimum and maximum percentage of contribution to government revenue was 1.80 percent and 3.2 percent respectively.

) It had been observed that contribution of income tax from NTC to total tax revenue was 2.38 percent in FY 2002/03 and 3.27 percent in FY 2006/07. Its average contribution to total tax revenue was 2.85 percent for the study period. Its minimum and maximum percentage of contribution to total tax revenue was 2.38 percent and 3.32 percent respectively.

) In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. The average share of income tax from NTC to direct tax revenue is 9.9 percent. It was 10 percent and 12.28 percent contribution in FY 2002/03 and FY 2006/07 respectively. Income tax from NTC is significantly affects the direct tax.

) The contribution percentage of income tax from NTC and total income tax (TIT) was 12.44 percent and 14.8 percent in FY 2002/03 and FY 2006/07 respectively. Its average contribution was 14.23 percent for the period of study year. Its minimum and maximum percentage of contribution to total income tax was 12.36 percent and 17.44 percentage respectively.

) The share percentage of income tax from NTC and corporate income tax was 40.67 percent and 3.45 percent in FY 2002/03 FY 2006/07 respectively. Its average contribution is 10.36 percent for the study period. Income tax from NTC significantly affects the corporate income tax. The minimum and maximum percentage of contribution to corporate income tax was 3.45 percent and 52.97 percent respectively.

) The contribution percentage between income tax from NTC and income tax from PES was 80.36% and 228 percent in FY 2002/03 and FY 2006/07. Average contribution percentage for the study period is 128.76 percent Income tax from NTC. Significantly affects the income tax form PES. The minimum and maximum contribution percentage between income from NTC and income tax from PES was 57.15 percent and 974 percent respectively.

#### 4.6 Empirical Analysis

An empirical analysis has been conducted in order to find out various aspects of income tax from the experience of real life situations. The major tools used for this purpose is in opinion questionnaire .Questionnaires were distributed to tax administrators, tax experts, policy makers. The responses received from various respondents have been arranged, tabulated and analysed in order to facilitate the descriptive analysis of the study (See Appendix A).

The questionnaire either asked for Yes/No response or asked for ranking of choices according to number of alternatives where the first choice was most important and last choice least important. For purpose choices were assigned weight according to number of alternatives .If the number of alternatives were 5 then the first preference choice got 5 points and last preferred choice got 1 point. Any alternative which was not ranked did not get any point. The total points available to choices were converted into percentage of references to the total points available for all choices .The choices with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

The following table shows the group of respondents

**Table No.23**  
**Group of Respondents and Code Used**

<b>S.No</b>	<b>Group of Respondents</b>	<b>Sample Size</b>	<b>Code</b>
1.	Tax Administration	25	I
2.	Tax Experts	25	II
	<b>Total</b>	<b>50</b>	

Source: Result of Empirical Investigation



#### 4.6 Income tax as a suitable means of collecting government revenue

To know whether income tax as a suitable means of collecting government revenue in Nepal, The question “Do you think that income tax is a suitable means of collecting government revenue? was asked. The responses received from the respondents are tabulated as follows.

**Table No.24**

#### **Income tax as a suitable means of collecting government revenue**

<b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos</b>	<b>%</b>	<b>Nos</b>	<b>%</b>	<b>Nos</b>	<b>%</b>
Tax Administration	20	80	5	20	25	100
Tax Experts	22	90	3	10	25	100
<b>Total</b>	<b>42</b>	<b>84</b>	<b>8</b>	<b>16</b>	<b>50</b>	<b>100</b>

**Source: opinion survey**

From the above opinion survey, it was found that 80% tax administrators and 90% tax expert recognized income tax as a suitable means of collecting government revenue. Only 20% tax administrators and 10% of tax experts did not recognize income tax as a suitable means of collecting government revenue in Nepal. Thus, it is concluded that income tax is a suitable means of collecting government revenue.

To know whether there is significant difference between the above views of tax administrators and tax payers (keeping the views of tax experts/policy makers constant), it is tested by chi-square ( $\chi^2$ -test)

### Test of Hypothesis

<b>Respondents</b>	<b>Yes</b>	<b>No</b>	<b>Row Total</b>
Tax Administration	20	5	25
Tax Experts	22	3	25
<b>Column Total</b>	<b>42</b>	<b>8</b>	<b>50</b>

Null Hypothesis, H0: There is no significant difference in tax administrators and tax expert views regarding the income tax is suitable means of collecting government revenue.

Alternative Hypothesis, H1: There is significant difference in tax administrators and tax expert views regarding the income tax is a suitable mans of collecting government revenue.

Test Statistic: Under H0, the test statistic is

$$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$$

Where F0: Observed frequency

Fe: Expected frequency =  $\frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$

Calculation of  $\chi^2$

Row, Column	Fo	Fe	Fo – Fe	(Fo-Fe) <sup>2</sup>	(Fo-Fe) <sup>2</sup> Fe
1,1	20	<u>25*42</u> 50 = 21	-1	1	0.048
1,2	5	<u>25*8</u> 50 =4	1	1	0.25
2,1	22	<u>25*42</u> 50 =21	1	1	0.048
2,2	3	<u>25*8</u> 50 =4	-1	1	0.25
<b>Total</b>				<u>(Fo-Fe)<sup>2</sup> =</u> 0.596 Fe	

Degree of freedom= (r-1) x (c-1) (2-1) (2-1) =1

Level of significance = 5%

Tabulated  $\chi^2_{0.05 (1)} = 3.841$

### **Conclusion:**

Since calculated value of  $\chi^2$  is less than tabulated value of  $\chi^2$ . it is not significant and  $H_0$  is accepted which means that there is no significant difference in tax administrators and tax payers views regarding the income tax is a suitable means of collecting government revenue.

### **4.5.2 Opinion towards Contribution of Indirect Tax**

In order to know whether indirect tax is contributing the total revenue is effective or not, a question asked to the respondents was “in your opinion, is indirect tax contributing total

revenue effective to the total revenue?” The question was intended to know the respondent’s opinion toward the role of indirect tax total revenue is effective. The responses received from the respondents have been tabulated below:

**Table No.25**

**Opinion Towards Contribution of Indirect Tax**

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Administrators	22	85	3	15	25	100
Tax experts	20	80	5	20	25	100
Total	42	84	8	16	50	100

Source: opinion survey

The above table shows that about 84% of respondents approved that contribution of indirect tax to total revenue is effective cent percent tax experts recognize the contribution of indirect tax to total revenue is effective and 16% of respondent showed their dissatisfaction regarding contribution of indirect tax to total revenue is effective. From this opinion, it can be concluded that the contribution of indirect tax to total revenue is effective.

To know whether there is significant difference or not between the above views of tax administrators and tax expert (keeping the views of tax experts/policy makers constant). It is tested by chi-square (  $\chi^2$  test)

Respondents	Yes	No	Row Total
Tax administrators	22	3	25
Tax expert	20	5	25
Column Total	42	8	50

**Null Hypothesis, Ho:** There is no significant difference in tax administrators and tax expert's views regarding contribution of indirect tax to total revenue is effective.

**Alternative Hypothesis, H1:** There is significant difference in tax administrators and tax experts' views regarding the contribution of indirect tax to total revenue is effective.

Test statistic, under Ho, the test statistic is

$$\chi^2 = \frac{(\text{fo} - \text{fe})^2}{\text{fe}}$$

**Calculation of  $\chi^2$**

Row, column	<i>F<sub>o</sub></i>	<i>F<sub>e</sub></i> = $\frac{RT * CT}{GT}$	<i>F<sub>o</sub></i> - <i>F<sub>e</sub></i>	$(F_o - F_e)^2$	$\frac{(F_o - F_e)^2}{F_e}$
1,1	22	$25 * 42 / 50 = 21$	1	1	0.0476
1,2	3	$25 * 8 / 50 = 4$	-1	1	0.25
2,1	20	$25 * 42 / 50 = 21$	-1	1	0.0476
2,2	5	$25 * 8 / 50 = 4$	1	1	0.25
				$\chi^2 = \frac{(\text{fo} - \text{fe})^2}{\text{fe}} = 0.5952$	

$$\text{Calculated } \chi^2 = \frac{(\text{fo} - \text{fe})^2}{\text{fe}} = 0.5962$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

Level of significant = 5%=0.05

Tabulated  $\chi^2_{0.05(1)} = 3.841$

Conclusion, since calculated value of  $\chi^2$  is less than tabulated value of  $\chi^2$ , it is significant and  $H_0$  is accepted which means that there is no significant different in tax administrators and tax payers views regarding the contribution of indirect tax to total revenue is effective.

#### 4.5.3 Most important factors for effectiveness of income tax

The respondents were requested to rank their choice from 1 to 5 accordingly to their preference to know the opinion of the respondents in view regarding to important factors for effectiveness of income tax in Nepal. A question was, “In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue? Was asked. The responses are summarized in the table as below.

**Table No.26**

#### **Most Important Factors for Effectiveness of Income Tax**

S.N.	Objectives	Group			Total points	%	Rank
		I	II	III			
1	Clear Act rules & regulation	98	85	89	272	31.30	1
2	Conscious & honest tax payers	44	60	52	156	17.95	3
3	Honest tax officers	39	52	44	135	15.53	4
4	Effective tax administration	68	63	48	179	20.59	2
5	Political non interruption	41	36	50	127	14.69	5
	<b>Total</b>	<b>290</b>	<b>296</b>	<b>283</b>	<b>869</b>	<b>100</b>	

**Source : Opinion Survey**

The most important factors fro effectiveness of income tax in Nepal according to the preference of the respondents were as follows

1. Clear act rules and regulations
2. Effective tax administration
3. Conscious and honest tax payers

4. Honest tax officers
5. Political and non interruption
6. Attitude towards income tax administrators

#### 4.5.4 Attitude towards Income Tax Administration in Nepal

To know the respondents views regarding effectiveness of income tax administration in Nepal, a question. Do you agree that the Nepalese income tax administration is effective? The responses are tabulated as follows.

**Table No.27**

<b>Respondents</b>	<b>Yes Number</b>	<b>Percentage</b>	<b>No. Number</b>	<b>Percentage</b>	<b>Total Number</b>	<b>Percentage</b>
Tax Administrator I	5	25	20	80	25	100
Tax Experts II	4	20	21	85	25	100
<b>Total</b>	<b>9</b>	<b>18</b>	<b>41</b>	<b>82</b>	<b>50</b>	<b>100</b>

**Source: Opinion Survey**

From the above table it has become clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 82 percent of respondents recognized it ineffective just 18% respondents approved Nepalese income tax administration is effective. To know, whether there is significant relationship or not between the above views of tax administrators and tax expert (Keeping the views of tax payers/policy makers constant).

It is tested by Chi –Square <sup>2</sup>

Test of Hypothesis

<b>Respondent</b>	<b>Yes</b>	<b>No</b>	<b>Row Total</b>
TA	5	20	25
TE	4	21	25
<b>Column Total</b>	<b>9</b>	<b>41</b>	<b>50</b>

Null hypothesis, HO: There is no significant difference in tax administrators and tax expert views regarding the effectiveness of Nepalese Income Tax administration.

Alternative Hypothesis, HI: There is significant difference in Tax administrators and tax expert views regarding the effectiveness of Nepalese Income Tax administration.

Test Statistic, under HO the test statistic is

$$\chi^2 = \frac{(\text{Fo} - \text{Fe})^2}{\text{Fe}}$$

calculation of  $\chi^2$

Row, column	Fo	Fe=RT*CT/GT	Fo-Fe	(Fo-Fe) <sup>2</sup>	(Fo-Fe) <sup>2</sup> /Fe
1,1	5	25*9/50=4.5	.5	.25	0.055
1,2	20	25*41/50=20.5	-0.5	0.25	.0122
2,1	4	25*9/50=4.5	-0.5	.25	.055
2,2	21	25*41/50=20.5	0.5	0.25	0.0122
<b>Total</b>				$\frac{(\text{Fo}-\text{Fe})^2}{\text{Fe}}=0.1344$	

Degree of freedom (r-1) (c-1) = (2-1) (2-1) =1

Level of significance =5%=0.05 %

Tabulated  $\chi^2_{0.05 (1)} = 3.841$

Conclusion

Since calculated  $\chi^2$  is less than tabulated Value of  $\chi^2$ .It is not significant and HO is accepted which means that there is no significant different in tax administrators and tax payers views regarding the effectiveness of Nepalese income tax administration.



#### 4.5.5 Attitude towards income tax system in Nepal

Income tax system of Nepal has been blamed that it has many problem.

To know whether income tax system of Nepal has problem or not a question was asked “Do you think that there are problems in income tax system of Nepal?” The responses received from respondents are tabulated as follows.

**Table No.28**

#### **Attitude Towards Income Tax System in Nepal**

S.N.	Respondents	Yes		No		Total	
		Nos	%	Nos	%	Nos	%
I	Tax administrator	20	80	5	20	25	100
II	Tax Experts / Policy makers	22	90	3	10	20	100

**Source: Opinion Survey**

From the above table it has become clear that there has problem In Nepalese tax system i.e. 84% thought that there were problems in Nepalese income tax system. Only 16% of the respondent thought there weren't only problem in Nepalese income tax system.

In order to know the problem of income tax system of Nepal the next question was asked “If yes, what are the major problems in income tax system of Nepal?” The respondent were request to choice 1 specific objective among the five available alternatives below presented table given a breakdown of responses.

S.N.	Objectives	Group			Total points	%	Rank
		I	II	III			
1	Complexity in income tax act rules and regulations	46	7	7	20	33.33	1
2	Inadequate economic policy	2	1	4	7	11.67	4
3	Inefficient income tax administration	4	3	5	12	20	3
4	Lack of consciousness of tax payers	7	5	3	3	25	2
5	Increasing habit of tax evasion	1	4	1	1	10	5
<b>Total</b>		<b>43</b>					

**Source: Opinion Survey**

From the above table the major problem of income tax system of Nepal were ranked in order of the Preference of the respondents as follows.

- ) Complexity in income tax Act rules and regulation
- ) Lack of consciousness of tax payers
- ) Inefficient income tax administration
- ) Inadequate economic policy
- ) Increasing habit of tax evasion

From the above it can be conclude tent in the opinion of respondents, there are problem in income tax system in Nepal .Basically due to the complicity in income tax act rules and regulation, lack of consciousness of tax payer and inefficient income tax administration were the major problem

The other cause response by the respondents was lack of consumer awareness.

#### 4.5.6 Attitudes towards poor tax paying habit among Nepalese people

It is said that tax paying habit among Nepalese people is poor. To know whether the tax paying habit among Nepalese people is poor or not a question was asked .Do you think that there is poor tax paying habit among Nepalese people? The responses received from the various respondents are tabulated as follows.

**Table No.29**

#### Attitude towards poor tax paying habit among Nepalese people

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Administrators	22	88	3	12	25	100
Tax experts	23	90	2	10	25	100
<b>Total</b>	<b>45</b>	<b>90</b>	<b>5</b>	<b>10</b>	<b>60</b>	<b>100</b>

**Source: Opinion Survey.**

From the above table, it is clear that there is poor tax paying habit among Nepalese people. Most of the respondent (i.e.90%) thought that there was poor tax paying habit among Nepalese people.

In order to know the causes of poor tax paying habit among Nepalese people another question was asked. If yes what are the major causes of poor tax paying habit among Nepalese people? The respondents were requested to rank there answers from 1 to 5 scales.

**Table No 30**

**Major causes of poor tax paying habit among Nepalese people.**

S.No	Major Causes	Group	Group	Group	Total Points	Percent	Rank
		I	II	III			
1	Poverty ness of tax payers	32	20	28	80	9.06	5
2	Little knowledge of tax payers and its benefits	87	53	65	175	19.82	4
3	Defective administration system	60	81	74	215	24.35	3
4	Complexity of tax laws and policies	81	59	50	190	21.52	2
5	Lack of incentives for regular tax	70	78	75	223	25.25	1

**Source :Opinion Survey**

The major causes of poor tax paying habit among Nepalese people were ranked in order to know preference of respondents as follows (see table for detail)

- ) Lack of incentives fro regular tax payers
- ) Defective tax administration system
- ) Complexity of tax laws and policies
- ) Little knowledge of tax and it's benefits
- ) Poverty ness of tax payers

It can be concluded that the above tabulated results that in the opinion of respondents, there is poor tax paying habit among Nepalese people due to lack of incentives for regular tax payers, defective tax administration system and complexity of the laws and policies.

The other causes are less transparency and accountability of the Nepalese people.

#### 4.5.7 Contribution of income tax from public enterprise to Government revenue

Public enterprises are most essential for the development of a country especially underdeveloped and developing countries like Nepal. Public enterprises are not only responsible for social activities. These PES generate income through utilization of resource of the country and government lives taxes.

It is said that the contribution of income tax from PES to government revenue is not satisfactory level. To know the fact, a question was asked, “Do you think that enterprises to government revenue are satisfactory level?” The responses received from the various respondents are tabulated as follows

**Table No.31**

#### **Attitude towards Contribution of Income Tax from PES in Government Revenue**

S.N.	Respondents	Yes		No		Total	
		Nos	%	nos	%	nos	%
1	Tax administrators	10	40	15	60	25	100
2	Tax experts	14	56	11	44	25	100
	<b>Total</b>	<b>24</b>	<b>48</b>	<b>26</b>	<b>52</b>	<b>50</b>	<b>100</b>

**Source: opinion survey**

From the above table It has best clear that contribution of income tax from public enterprises to government revenue is not satisfactory. Most of the respondents (about 52%) thought it was not satisfactory.

In order to know the reasons of unsatisfactory contribution from PES to government revenue, another question was asked,” it no, what are the cause of government revenues? The

respondent to rank 1 to 5 scale of their answer. Below presented table shows the break down of respondents.

**Table No.32**

**Causes of unsatisfactory Contribution of Income Tax from PES to Government Revenue**

S.N.	Major problems	Group			Total Points	%	Rank
		I	II	III			
1	Defective income tax	35	39	32	106	13.07	5
2	Poor performance of PEs	74	69	59	202	24.90	1
3	High competition in PES	57	58	41	156	19.24	3
4	Over staffing and political pressure	68	61	69	198	24.41	2
5	Weakness of government economic policies	39	46	64	149	18.37	4
	<b>Total</b>				<b>811</b>	<b>100</b>	

**Source: Opinion survey,**

From the above table, the major reasons of unsatisfactory contribution from PES to Government revenue can be ranked in order of performance of the respondents as follows.

- ) Poor performance of public enterprises
- ) Over staffing and political pressure.
- ) High corruption in public enterprises.
- ) Weakness of government economic policies.
- ) Defective income tax.
- ) The respondent views that lack of accountability and finally not returned the tax file and deposited their income tax are the other caused of unsatisfactory contribution of income tax from PES to it`s revenue.
- ) It can be concluded that poor performance of public enterprises over staffing and political pressure and high corruption in public enterprises are the most important cause of unsatisfactory contribution of income tax from PES to government revenue.

) To know whether there is significant relationship or not the above views of tax administrators and tax payers (keeping the views of tax experts policy makers constant. It is tested by chi-square ( $\chi^2$ -test) test of Hypothesis

) Respondents

) Test of Hypothesis

S.No.	Major problems	Tax administration	Tax expert	Total
1	Defective income tax	35	32	67
2	Poor performance of public enterprises	74	59	133
3	High corruption in public enterprises	57	41	98
4	Over staffing and political pressure	68	69	137
5	Weakness of government economic Policies	39	64	103
	<b>Total</b>	<b>273</b>	<b>265</b>	<b>538</b>

Null Hypothesis Ho: There is no significant difference in tax administrator and tax expert view regarding the causes of unsatisfactory contribution of income tax from PES to government.

Test statistic: Under Ho, the test statistic is

$$\chi^2 = \frac{(F_o - F_e)^2}{F_e}$$

Where,  $F_o$  = observed frequency.

$F_e$ : Expected frequency =  $\frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$

Calculation of  $\chi^2$

Row, Column	Fo	Fe	Fo-Fe	(Fo-Fe) <sup>2</sup>	$\frac{(Fo-Fe)^2}{Fe}$
1,1	35	$\frac{67 \times 273}{538} = 34$	1	1	0.029
1,2	32	$\frac{67 \times 265}{538} = 33$	-1	1	0.030
2,1	74	$\frac{133 \times 273}{538} = 67.49$	6.51	42.38	0.627
2,2	59	$\frac{133 \times 265}{538} = 65.51$	-6.51	42.38	0.647
3,1	57	$\frac{98 \times 273}{538} = 49.73$	7.27	52.85	1.062
3,2	41	$\frac{98 \times 265}{538} = 48.27$	-7.27	52.85	1.095
4,1	68	$\frac{137 \times 273}{538} = 69.52$	-1.52	2.31	0.032
4,2	69	$\frac{137 \times 265}{538} = 67.48$	1.52	2.31	0.034
5,1	39	$\frac{103 \times 273}{538} = 52.27$	-13.27	176.09	3.37
5,2	64	$\frac{103 \times 265}{538} = 50.73$	13.27	176.09	3.47
<b>Total</b>				$\frac{\sum(Fo - Fe)^2}{Fe} = 10.396$	

$$\text{Calculation } \chi^2 = \frac{(Fo - Fe)^2}{Fe}$$

Degree of freedom (r-1) (c-1) (5-1) (2-1) = 4

Tabulated  $\chi^2_{0.05 (4)} = 9.488$

Conclusion

Since tabulated value of  $\chi^2$  is less than Calculated value of  $\chi^2$ . It means alternative hypothesis H1 is accepted. There is significant different in Tax administrators and Tax expert



views regarding the causes of satisfactory contribution of income tax from PEs to government revenue.

#### 4.5.8 Opinion towards contribution of NTC income to Revenue of Nepal.

In order to know whether NTC income is contributing the income tax revenue or not, A question asked to the respondents was in your opinion, is NTC income contributing significantly to the income tax revenue of Nepal? The question was intended to know the respondents opinion towards the role of NTC income in the income tax revenue. The responses received from respondents have been tabulated below.

**Table No.33**

#### **Contribution of NTC Income to Income Tax Revenue of Nepal.**

S.N.	Respondents	<u>Yes</u>		<u>No</u>		<u>Total</u>	
		<u>Nos</u>	<u>%</u>	<u>Nos</u>	<u>%</u>	<u>Nos</u>	<u>%</u>
I	Tax administrators	17	65	8	35	25	100
II	Tax Experts \ Policy makers	20	80	5	20	25	100
<b>Total</b>		<b>37</b>	<b>74%</b>	<b>13</b>	<b>26%</b>	<b>50</b>	<b>100.00%</b>

**Source: Opinion Survey**

The above table showed that 74% of the respondents showed their satisfaction regarding the contribution of NTC income to income tax revenue of Nepal and about 26 of the respondent showed dissatisfactory regarding the contribution of NTC income to income tax revenue of Nepal.

Thus it can be conceded that contribution of NTC income to the income tax revenue is significant.

To know, whether there is significant relationship or not between the above view of tax administration and tax payers (keeping the views of tax experts / policy makers constant) It is tested by chi-square test

### Test of Hypothesis

Respondent	Yes	No	Row Total
Tax administrators	17	8	25
Tax experts	20	5	25
Column Total	37	13	50

Null Hypothesis, Ho: there is no significant different in tax administrators and tax payers views regarding the contribution of NTC income to income tax revenue of Nepal

Alternative Hypothesis, H1: There is significant different in tax administrators and tax payers views regarding the contribution of NTC income to income tax revenue of Nepal

Test statistic, under Ho, the test statistic is

$$\chi^2 = \frac{\sum(F_o - F_e)^2}{F_e}$$

Calculation of  $\chi^2$

Row, Column	$F_o$	$F_e$	$F_o - F_e$	$(F_o - F_e)^2$	$\frac{(F_o - F_e)^2}{F_e}$
(1,1)	17	$\frac{25 \times 37}{50} = 18.5$	-1.5	2.25	0.122
(1,2)	8	$\frac{25 \times 13}{50} = 6.5$	1.5	2.25	0.346
(2,1)	20	$\frac{25 \times 37}{50} = 18.5$	1.5	2.25	0.122
(2,2)	5	$\frac{25 \times 13}{50} = 6.5$	-1.5	2.25	0.346
<b>Total</b>					$\frac{\sum(F_o - F_e)^2}{F_e} = 0.936$

Calculated  $\chi^2 = \frac{\sum(F_o - F_e)^2}{F_e} = 0.936$

Degree of freedom  $(r-1)(c-1) = (2-1)(2-1) = 1$

Level of significance  $= 5\% = 0.05$

Tabulated  $\chi^2_{0.05(1)} = 3.841$

Conclusion, since calculated value of  $\chi^2$  is less than tabulated value of  $\chi^2$ , it means there is no significant difference in tax administrators and tax expert's views regarding the contribution of NTC income to income tax revenue of Nepal

#### 4.5.9 Problem faced by Nepal telecom regarding income tax system

It has been blamed that telecom is facing various problems regarding to income tax system. To know the fact question was asked. In your opinion what are the problems faced by telecom regarding to income tax system? The respondent was requested to choose one alternative from the available alternatives. Below presented table gives breakdown of responses.

**Table No.34**

#### **Problem Faced by Telecom Regarding to Income Tax System**

S.N.	Major Problems	Group			Total points	%	Rank
		<u>I</u>	<u>II</u>	<u>III</u>			
1	Inefficient tax administration	4	7	6	17	28.33	2
2	Heavy fine and penalty	4	3	5	12	20	3
3	High discretionary power of income tax officer	-	-	1	1	1.67	5
4	Lack of clear act news and regarding	7	7	6	20	33.33	1
5	Slow income tax assessment process	5	3	2	10	16.67	4
	<b>Total</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100</b>	

**Source: Opinion Survey**

The Major problem faced by telecom regarding to income tax system were ranked percentage in order to know the preference of the responded as follows

- ) lack of clear Act rules and regulation
- ) Inefficient tax administration
- ) Heavy fine and penalty
- ) slow income tax assessment process
- ) High discretionary power of income tax officer

Lack of responsibility and accountability are other problem faced by the telecom regarding income tax system

It can be concluded that telecom are facing various problem regarding to income tax system basically due to the lack of clear Act, rules and regulations, inefficient tax administration and fine and penalty Attitude towards income tax system in Nepal

**An opinion survey has been conducted from tax administrators, tax exports and tax payers. The following findings have been down.**

- ) Income tax is the suitable means of raising government revenue.
- ) Clear act rules and regulation, effective tax administration, conscious and hones tax payers, honest tax officers, political and non interruption are the most important instruments for effectiveness of income taxation in Nepal. Nepalese income tax administration is ineffective.
- ) There are problem in income tax system in Nepal. Due to the complexity in income tax act, rules and regulation, lack of consciousness of tax payers, inefficient income tax administration inadequate economic policy and increasing habit of tax evasion.
- ) There is poor tax paying habit among Nepalese people basically due to the lack of incentives for regulation tax payer's defective tax administration system and complexity of tax laws and policies.
- ) There is unsatisfactory contribution of income tax from PES to government revenue poor performance of public enterprises, over staffing and political pressure and high corruption in PES are most impotent causes of complexity contribution of income tax from PES to government revenue.
- ) Contribution of telecom income to income tax revenue has been found satisfactory.

) Telecom is facing various problems requiring to income tax system, due to the lack of clear act, rules and regulation, inefficient tax administration and heavy fine and penalty.

## **CHAPTER 5**

### **SUMMARY, CONSLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Nepal is agriculture based least developed country. The economic status of Nepalese people is very poor. The per capita income is near about \$ 320. This is lowest among SAARC countries and almost lowers per capita income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To lunch these activities government needs various resources. Money, man, machine and materials. Nepalese economic is facing serious problem of resource gap revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country but the revenue surplus is not adequate to undertake developmental activities sufficiently in the country. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long non interest of the country.

Nepal government can use internal and external resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit of Nepal has been increasing. To solve the problem of fiscal deficit, income tax should play an important role but in Nepal, income tax has not been seen mobilized properly.

The present study entitled income tax collection from public enterprises with special reference to Nepal Telecom is related to the public enterprises as part of the income taxation. In this study analysis of effectiveness of income tax revenue and contribution of public enterprise as well as Nepal telecom income to tax revenue of Nepal has been shown, This study covers the role of income tax in Nepal, role of income tax from public enterprises and Nepal Telecom income in government revenue of Nepal, comparative study in the role of

income tax from public enterprise and Nepal Telecom income to total tax revenue and income tax revenue of Nepal.

In second chapter, the review of literature had made through the study of various books articles dissertation and other reference materials, various concepts of taxation have been discussed in this study. It includes sources of government revenue, meaning of tax, classification of taxes, objectives of taxation, historical background of income tax, heads of income and concept of taxation.

In chapter three, the researcher had discussed about various aspects of research methodology as research design used for this study, data collection procedure, population and sample size nature and sources of data, selection of the respondents, procedures of processing and analysis of data.

Chapter four, deals with the primary as well as secondary data and analyzed them to get the meaningful result. Economic Surveys and Annual Report of NTC were the major sources of secondary data. To collect primary data a set of questionnaire was developed and 60 questionnaires were distributed to the respondents.

The main objective of the present research was to study the structure of income tax and its contribution from PES to government revenue of Nepal with reference to NTC.

## **5.2 Conclusion.**

) Revenue structure of Nepal is composed of tax and non tax revenues. Tax revenue has the largest share of contribution in total revenue i.e. average 80.32 percent of total revenue has been found to be contributed by tax revenue in total revenue from the F/Y 2002/03 to FY 2006/07 taxes on consumption and product of goods and services has occupied first position regarding its contribution in total revenue.

) Tax revenue has consisted direct and indirect tax revenues. Tax revenue has been dominated by indirect tax revenue. From FY 2002/03 to 2006/07 average contribution of indirect tax revenue has been found 73.32 percent in tax revenue. Among direct taxes, income tax has highest contribution.

) Nepalese income tax structure is formed by contribution of income tax from PES, semi public enterprise. Private corporate bodies, individuals, taxation and plowmen, tax on

intersect and other taxes contribution of individuals has occupied first position in total income tax revenue.

) It shows that the tax/GDP ration of Nepal is no good. The study should the lower contribution of tax revenue to GDP.

) Contribution of income tax has been increasing trends in total revenue, tax revenue and direct tax revenue in Nepal respectively.

) The study showed the contribution of tax revenue it had occupied major portion of tax revenue in comparison of non tax revenue in the total tax revenue of Nepal. It showed that tax has been a major source of revenue mobilization.

) The value of research gap is in increasing trend.

) Income tax from PES to GDP of Nepal is decreasing rapidly.

) Income tax from PES to government revenue is increasing up to 2003/04 and then decreasing.

) Income tax from PES to revenue is in decreasing trend.

) Income tax from PES to direct tax revenue is fluctuating trend.

) Income tax from PES to total income tax is in decreasing trend during the study period.

) In corporate income tax from PES occupied major portion during the study period.

) The share of income tax from NTC to GDP of Nepal had fluctuating trend. Income tax from NTC significantly affects the GDP.

) If has been observed that contribution from NTC income tax to government revenue had increased. It shows that income tax for NTC significantly affects the total revenue.

) Income tax from NTC to total tax revenue showed the increasing trend. Income tax from NTC significantly affects the total tax revenue.

) Direct tax can not produce more revenue because of low level of income and standard living in the country. There is substantial contribution of income tax and income tax from NTC significantly affects the direct tax.

) The contribution percentage of income ac from NTC to total income tax has been increasing in each year.

) The contribution percentage of income tax from NTC to corporate income tax is fluctuating and its contribution had been increasing in each year.

) Income tax from NTC occupied major portion in total income tax. The mean percentage contribution by income tax from NTC in PES is 54.125. It shows that income tax from NTC affects the income tax from PES.

) Income tax is an important source of collecting government revenue contribution of indirect tax to total revenue is effective than direct tax.

) The success or effectiveness of income tax system entirely depends upon the implementation of provisions which is the major responsibility of income tax administration.

) There is poor tax paying habit among Nepalese people. Basically due to lack of incentives for regulator tax payers, defective tax administration system.

) There is no satisfactory contribution of income tax from PES to government revenue poor performance of public enterprises, overstaffing and political pressure and high corruption in public enterprises are the most important causes of unsatisfactory contribution of income tax from PES to government revenue.

) Contribution of telecom income to income tax revenue has been found satisfactory.

) Nepal Telecom 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

### **5.3 Recommendations**

On the basis of the present study, the following recommendations are suggested.

) The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficial to the people.

) 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.

) The government should increase the amount of investment in NTC to render services to the customer and generate more revenue from NTC. To increase investment NTC should modernize its existing service rendering system in town areas and extend its coverage of service in deprived cores of the country, which is supported to increase the ratio of direct tax revenue and total tax revenue.



- ) The government should take strict action against such PES which is suffering from losses for many years rather than providing subsidies.
- ) The following recommendation is made for improvement of income tax administration.
  - Delay in assessment should be reduced as possible.
  - Unnecessary outside pressure should be avoided.
  - Proper direction and communication should be made more effective.
  - Computerized information system is necessary to keep up to date records of income tax.
  - Proper tax educational should be provided to tax officials as well as tax payer's regularity.
- ) The following recommendation are made to make factory contribution of income tax from PEs
  - There should be proper responsibility and accountability.
  - Overstaffing should be reduced to prophesize and corrupting should be minimized in PES.
  - The management of PES should be responsible to failure of public enterprises. They should be punished when they cannot meet their targets and they should be awarded when they actives success.
  - Weakness of government economic policy should be avoided.
- ) The following recommendations are made to solve the problems faced by Nepal Telecom regarding income tax system.
  - Income tax administration 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.

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.

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[www.mof.gov.np](http://www.mof.gov.np)

[www.ird.org.com.np](http://www.ird.org.com.np)

## APPENDIX

You are kindly requested to tick ( ) the answer of your choice or wherever appropriate.

Please rank from 1(most important alternative) to last number in order of preference.

1. Do you think that tax is a suitable means of collecting government revenue?

Yes ( )

No ( )

2. Do you think that contribution of indirect tax to total revenue is effective?

Yes ( )

No ( )

3. In your opinion, what is the most important factor for the effectiveness of income tax in Nepal to raise government revenue?

1) Clear act, rules and regulations ( )

2) Honest tax officers ( )

3) Conscious and honest tax payers ( )

4) Effective tax administration. ( )

5) Political non interruption. ( )

6) Others, Please specify

4. Do you agree that Nepalese income tax administration is effective?

Yes ( )

No ( )

5. Do you agree that there are problem in income tax system of Nepal?

Yes ( )

No ( )

If yes, what are the major problems in income tax system of Nepal (Please rank 1 -6?)

- 1) Complexity in income tax act. ( )
- 2) Inadequate income tax act. ( )
- 3) Inefficient income tax administration. ( )
- 4) Lack of consciousness of tax payers. ( )
- 5) Increasing habit of tax evasion. ( )
- 6) Others please specify.

6. Do you think that there is poor tax paying habit among the Nepalese People?

Yes ( )

No ( )

If yes, what are the major causes of poor tax paying habit among the Nepalese People? (Please rank 1 -6)

- 1) Poverty of the tax payers. ( )
- 2) Little knowledge of tax and its benefits. ( )
- 3) Defective Tax administration system. ( )
- 4) Complexity of Tax law and policies. ( )
- 5) Lack of incentives for regular tax payers. ( )
- 6) Others please specify.

7. Do you think that the contribution of income tax from public enterprise to government revenue is in satisfactory level?



Yes ( )

No ( )

If no, what are the causes of unsatisfactory contribution of income tax from PEs in government revenue (Please rank 1- 6)

- 1) Defective income tax. ( )
- 2) Poor performance of public enterprises. ( )
- 3) High conception in public enterprises. ( )
- 4) Over staffing and political pressure. ( )
- 5) Weakness of government economic policies. ( )
- 6) Others please specify.

8. In your opinion, is NTC contributing significantly to the income tax revenue of Nepal?

Yes ( )

No ( )

9. In your opinion what are the major problems faced by telecom regarding tax system?

- 1) Inefficient tax administration . ( )
- 2) Heavy fine and penalty. ( )
- 3) High discretionary power of income tax officer. ( )
- 4) Lack of clear act, rules and regulations. ( )
- 5) Slow income tax assessment process. ( )
- 6) Others please specify----

10. If any comments and suggestions please specify-----.

## **APPENDIX –I**

Dear Madam / Sir

At First I would like to introduce myself as a student of Nepal Commerce Campus, Tribhuvan University, MBS Final Year. In order to fulfill the partial requirement of Degree of Master in Business Studies, I am conducting the research work entitled, “A Study on the Contribution of NTC on Government Revenue.”

I have sent this questionnaire to spare some of your valuable time to provide your valuable experience, suggestions and opinions concerning with income tax system in Nepal, which will be very much appreciated if you could provide your important time for filling this questionnaire.

I assure that the information you provide me will solely be utilized in research work. I hope for your kind co-operation and support.

Yours Sincerely

Shuvechchha Dhakal