

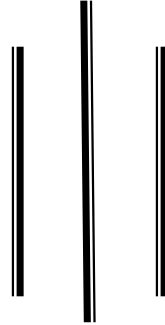
**A Study on Contribution of Income Tax from
Commercial Banks and Finance Companies to the
Government Revenue of Nepal**

Submitted By:

Shambhu Prasad Pokharel
Shanker Dev Campus

Kathmandu

Roll Number: 2014/061



TU Registration Number: 20438-90

A thesis

Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

*In partial fulfillment of the requirements for the degree of Master
of Business Studies (M.B.S.)*

February, 2008

ACKNOWLEDGEMENT

This study is mainly concerned with a contribution of income Tax by commercial banks and finance companies to the government revenue. Various research and studies have been made in the income tax related field. Most of them are concentrated on legal, administrative and assessment procedure of income tax in Nepal. Very few of the research studies have given detail information and a comparative and analysis of the role and problems of the income tax in Nepal. Seeing the lack of the study in collection of income tax revenue in details, this study mainly concentrated on the strategic role of income taxation for revenue collection in a more specific way.

I am extremely indebted to my supervisor Dr. Kamal Deep Dhakal, Shanker Dev Campus, Tribhuvan University for his generous encouragement and undertaking of the supervision of my entire research work. This form of the report is the result of his continuous encouragement, many helpful suggestions and comments.

I am very much grateful to Dr. Gita Pradhan, Pro.Dr. Govinda Ram Agrawal and my other respected teachers of Shanker Dev Campus for providing invaluable suggestions, informations and comments.

Similarly, I am thankful to my colleagues Tara chouhan and Mrs Santi Rai, and others for their cooperation, inspiration and encouragement.

Lastly, my thanks go to my family members for their help in many ways.

TABLE OF CONTENTS

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

Page No.

CHAPTER- I INTRODUCTION

1.1	Background of the Study	1
1.1.1	Meaning of Commercial Bank	3
1.1.2	Brief History of the Evolution of Banking in Nepal	4
1.1.3	Functions of Commercial Banks	8
1.2	Statement of Problem	8
1.3	Objectives of the Study	10
1.4	Significance of the Study	10
1.5	Limitation of the Study	11
1.6	Organization Structure of the Study	12

CHAPTER –II REVIEW OF LITERATURE

2.1	Conceptual Framework	14
2.1.1	Meaning of Tax	14
2.1.2	Objectives of Taxation	15
2.1.3	Canons or Principles of Taxation	16
2.1.4	Types of Tax	17
2.1.5	Income Tax	18
2.1.6	Administration	18
2.1.7	Tax Administration	19
2.1.8	Significance of tax Administration	19
2.1.9	Tax Administration and Fiscal Policy	22
2.1.10	Tax Administration and Tax Policy	23
2.1.11	Tax Administration and Tax Structure	23

2.1.12 Essential Functions of the Tax Administration.	24
2.1.13. Taxpayer Registration and Identification.	25
2.2.13.1 Assessment	26
2.2.13.2 Collection	26
2.2.13.3 Audit	27
2.2 Review of Literature	27
2.3 Research Gap	32
CHAPTER – III RESEARCH METHODOLOGY	
3.1 Introduction	34
3.2 Research Design	34
3.3 Nature and Sources of Data Collection Procedure	35
3.4 Population and Sampling	35
3.5 Method and Analysis	39
CHAPTER – IV DATA PRESENTATION AND ANALYSIS	
4.1 Structure of Nepalese Government Revenue	42
4.2 Contribution of tax Revenue to the Total Revenue	43
4.3 Contribution of Direct Tax to Total Tax Revenue and Total Revenue	45
4.4 Structure of Income Tax Revenue in Nepal	47
4.5 Role of Corporate Tax in Nepal	49
4.6 Corporate Tax on Government Revenue	50
4.7 Corporate Tax Collection from Commercial Banks	52
4.8 Contribution of Corporate Tax Collection from Commercial Banks to Total Tax Revenue and Revenue of Government	55
4.9 Contribution of Income Tax Collection from Commercial Banks in Corporate Tax and Total Income Tax	57
4.10 Relationship of Corporate Tax and Tax Collected from Commercial Banks with Gross Domestic Product	59
4.11 Corporate Tax Collection from Finance Companies	61
4.12 Contribution of Corporate Tax Collection from Finance Companies to Total Tax Revenue and Revenue of Government	63
4.13 Contribution of Income Tax Collected from Finance Companies in	

Corporate Tax and Total Income Tax	65
4.14 Contribution of Corporate Tax and Tax Collection from Finance Companies with Gross Domestic Product	67
4.15 Contribution of Tax Collection from Commercial Banks and Finance Companies on Total Corporate Tax	68
4.16 Contribution of Tax Collection from Selected Commercial Banks and Finance Companies on Total Income Tax	70
4.17 Contribution of Tax Collection from Commercial Banks and Finance Companies on Total Tax Revenue	72
4.18 Contribution of Tax Collection from Selected Commercial Bank and Finance Companies on Revenue of Government	74
4.19 Analysis of Empirical Study	75
4.20 Background of Responses	76
4.20.1 Effectiveness of Income Tax System of Nepal	76
4.20.2 Causes of Effectiveness of Income Tax System of Nepal	77
4.20.3 Causes of Non- Effectiveness of Income Tax System of Nepal	78
4.20.4 Soundness of Tax Administration in Nepal	79
4.20.5 The Responsible Causes for the Creation of Unsound Tax Administration of Nepal	80
4.20.6 Opinions about the Current Income Tax Rate	81
4.20.7 Sufficiency of Exemptions items of Income Specified in the Act	81
4.20.8 Limitation of Exemption Limits for Income Tax in Nepal	83
4.20.9 Necessary steps of Facilities should be taken by Government for Bank and	83
4.20.10 Available Tax Concession for the Selected Commercial Banks and Financial Companies in Nepal	84
4.20.11 Suggestion to Increase the Tax Paying Habit of Nepalese People	85
4.20.12 Steps those should be considered to Generate More Revenue from Banks and Financial Companies	87
4.20.13 Effectiveness of Self Assessment	88
4.20.14 View about the Current Income Tax Rate	88

4.20.15 Appropriate Method of Income Tax Assessment in Nepal	89
4.20.16 Effectiveness of Income Tax in Nepal to Raise Government Revenue	90
4.20.17 Adequate Contribution of Income Tax from Banking and Financial Companies	91
4.20.18 Causes of Inadequacies Contribution of Income Tax from Banking or Financial Companies	92
4.20.19 Suggestion for Increasing Contribution of Income Tax to National Revenue from Banking and Financial Institution	93
4.20.20 Effectiveness of Contribution of Income Tax to National Revenue from Banking and Financial Institution	94
4.20.21 Existence Difficulties in Income Tax Collection and Assessment Procedure from Public Enterprises	94
4.20.22 Some Particular Suggestions to Increase Income Tax from Banking and Finance Sector	95
4.20.23 Views on the Income Tax Net	95
4.20.24. Views of the Tax Free Income	96
4.20.25 Particular Suggestions and Recommendations about Income Tax in Nepal	96
4.20.26 Existences Complain for Banking and Financial Companies	97
4.20.27 Existences Trouble for Paying Income Tax	98
4.20.28 Existences problem faces by Banking and Financial Companies	98
4.21 Major Finding of the Study	99
CHAPTER – V	
SUMMARY, CONCLUSION AND RECOMMENDATIONS	
5.1 Summary	105
5.2 Conclusion	107
5.3 Recommendations	112

ABBREVIATIONS

AD	Anno Domini
B.S	Bikram Sambat
CEDA	Center For Economic Development and administration
DT	Direct Tax
Dr.	Doctor
DG	Director General
Eg	For Example
Etc	And the other
Fy	Fiscal Year
GDP	Gross Domestic Product
HMG	His Majesty's Government of Nepal
IRD	Internal Revenue Department
i.e	That is
ktm	Kathmandu
Ltd	Limited
LTO	Local Tax Office
MOF	Ministry of Finance
Mr.	Mister
Mrs.	Misses
No.	Number
Pvt.	Private
Rs.	Rupees
S.N	Serial Number
TU	Tribhuvan University
VAT	Value Added Tax
Vol	Volume
\$	US dollor

List of Table

	Page
Table 1.1 Growth of Financial Institutions in Nepal	3
Table 1.2 List of Class A Licensed Commercial Banks (Mid-Jan 2007)	7
Table 4.1 Contribution of Tax Revenue to the Total Revenue	44
Table 4.2 Contribution of Direct Tax to Total Tax Revenue and Total Revenue	46
Table 4.3 Contribution to Corporate Tax in Total Income Tax	49
Table 4.4 Corporate Tax on Government Revenue	51
Table 4.5 Corporate Tax Collection from Selected Commercial Banks	53
Table 4.6 Average Corporate Tax Collection from Selected Commercial Banks	54
Table 4.7 Contribution of Income Tax Paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue	55
Table 4.8 Contribution of Income Tax Collection from Commercial Banks to the Total Income Tax and Corporate Tax	58
Table 4.9 Relationship of Corporate Tax Collection from Commercial Banks with Gross Domestic Product	60
Table 4.10 Tax Collection from Selected Finance Companies	62

Table 4.11 Averages Corporate Tax Collection from Selected Finance Companies
63

Table 4.12 Contribution of Corporate Tax Paid by Finance Companies
to Total Government Revenue and Total Tax Revenue
64

Table 4.13 Contribution of Income Tax Paid by Finance Companies to
Total Income Tax and Corporate Tax
66

Table 4.14 Relationship of Corporate Tax Collection from Finance
Companies with Gross Domestic Product
68

Table 4.15 Contribution of Tax Collection from Commercial Banks and
Financial Companies on Total Corporate Tax
69

Table 4.16 Contribution of Tax Collection from Selected Commercial
Banks and Finance Companies to Total Income Tax
71

Table 4.17 Contribution of Tax Collection from Selected Commercial
Banks and Finance Companies on Total Tax Revenue
73

Table 4.18 Contribution of Tax Collection from Selected Commercial Bank
and Finance Companies on Revenue of Government
74

Table 4.19 Effectiveness of Income Tax System in Nepal
76

Table 4.20 Causes of Effectiveness of Income Tax System of Nepal
77

Table 4.21 Cause of Non- Effectiveness of Income Tax System of Nepal
78

Table 4.22 Soundness of Tax Administration in Nepal
79

Table 4.23 The responsible causes for the Creation of Unsound Tax Administration of Nepal	80
Table 4.24 Options about the Current Income Tax Rate	81
Table 4.25 Sufficiency of Exemptions Items of Income Specified in the Act	81
Table 4.26 Limitation of Exemption Limits for Income Tax in Nepal	83
Table 4.27 Necessary steps of Facilities should be taken by Government for Bank and Finance Companies	84
Table 4.28 Available Tax Concession for the Selected Commercial Banks and Financial Companies in Nepal	85
Table 4.29 Suggestion to Increase the Tax Paying Habit of Nepalese People	86
Table 4.30 Steps those should be considered to generate more Revenue from Banks and Financial Companies	87
Table 4.31 Effectiveness of Self Assessment	88
Table 4.32 View about the Current Income Tax Rate	89
Table 4.33 Ranking the Tax Appropriate Tax Assessment Method in Nepal	89
Table 4.34 Effectiveness of Income Tax in Nepal to Raise Government Revenue	90
Table 4.35 Adequate Contribution of Income Tax from Banking and Financial Companies	91

Table 4.36 Causes of Inadequacies Contribution of Income tax from Banking and Financial Companies	92
Table 4.37 Suggestion for Increasing Contribution of Income Tax to National Revenue from Banking and Financial Institution	93
Table 4.38 Effectiveness of Contribution of Income Tax to National Revenue from Banking and Financial Institution	94
Table 4.39 Existence Difficulties in Income Tax Collection and Assessment Procedure from Public Enterprises	94
Table 4.40 Some Particular Suggestions to Increase Income Tax from Banking and Finance Sector	95
Table 4.41 View on the Income Tax Net	95
Table 4.42 View of the Tax Free Income	96
Table 4.43 Complain of Banking and Financial Companies	97
Table 4.44 Existences Trouble for Paying Income	98
Table 4.45 Existences Problems Faces by Banking and Financial Companies	98

List of Figure	Page
Figure 4.1 Contribution of Tax Revenue to the Total Revenue	44
Figure 4.2 Contribution of Direct Tax to Total Tax Revenue and Total Revenue	46
Figure 4.3 Contributions to Corporate Tax in Total Income Tax	50
Figure 4.4 Contribution of Income Tax Paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue	56
Figure 4.5 Contribution of Income Tax Collection from Commercial Banks to the Total Income Tax and Corporate Tax	59
Figure 4.6 Contribution of Income Tax Paid by Finance Companies to Total Government Revenue and Total Tax Revenue	64
Figure 4.7 Contribution of Income Tax Paid by Finance Companies to Total Income Tax and Corporate Tax	66
Figure 4.8 Contribution of Tax Collection from Commercial Banks and Financial Companies on Total Corporate Tax	70
Figure 4.9 Contribution of Tax Collection from Selected Commercial Banks and Finance Companies to Total Income Tax	72
Figure 4.10 Contribution of Tax Collection from Selected Commercial Banks and Finance Companies on Total Tax Revenue	73
Figure 4.11 Contribution of Tax Collection from Selected Commercial Bank and Finance Companies on Revenue of Government	75