

Chapter - 1

INTRODUCTION

1.1 General Background

The revenue of government comes basically from two source non tax and tax. Non tax revenue includes different source like grants and gifts, administrative income, business, income registration fees and penalties. Other source of government revenue is the taxation; customs, excise, VAT, corporate and personal income tax are the example of these sources of tax revenue.

The government promulgates the Acts in different period for enhance tax revenues and collects the taxes as per provision made in the Act. The tax cannot be imposed without the Act of the parliament. Tax is a compulsory contribution from a person to the government without have any right to receive direct benefit from the tax paid. Tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of the services or goods from the government. A tax is not a price paid by one, for which he can claim goods and service.

Hence, it should be noted that all compulsory payments are not taxes. The charge of price for goods and services by public authority is not a tax. The tax is paid to government for running it. The tax is collected from haves and basically, spent for the interest of haves-not in the society. A natural or artificial person pays the tax.

The tax has the objectives of raising revenue to have resource mobilization, equal distribution of wealth and income in the society, encouragement in production of certain products, encouragement in employment, saving and investment, removal of regional and enforcement of government policy.

The main taxes, which the business community should encounter during day to day business life and which provide most of the revenues are customs duty, values added tax income tax, excise duty and local tax. The canons that are given by Adam Smith are economy canon of productivity, canon of flexibility canon of diversity, canon of simplicity and canon of uniformity.

A tax imposed on income base is called income tax. Income tax is divided into two parts- individual income tax and corporate income tax. Corporate income tax was at first introduction in 1909 in America. In Nepal, income tax (both individuals and corporate) provides around 21% of the total tax revenue. The marginal tax rate is 25% for individuals and 20% (industry), 30% (financial institution) and 25% (other tax payers) for corporate bodies.

The budget in 2008 B.S. state about the introduction of income tax system in Nepal. However, it was actually introduction only in 2017 when the finance Act, 2016 and business profits and remuneration tax Act 2017 were enacted.

Finance Act 2017 replaced by the income tax act 2019. This act has 29 section divided the head of income into 9 parts. The act was amended in 2029 extensively.

In capable of fulfilling the need of time, it was replaced by income tax act 2031. This Act having 66 sections, classified the source of income into 5 heads.

With a view of supplementing the income tax Act, 2031, income tax rules, 2039 was enacted. Income tax Act 2031 was revised for 8 times in 1977, 1979, 1980, 1984, 1985, 1986, 1989, and 1992. Since 19th Chaitra 2058 Income Tax Act 2058 has been introduced in Nepal to avoid the defects of Income Tax Act 2031. Tax system is the sub-system of the total economy. Tax policy is changed with the change in the economic policy of country. 1950's concept of 'high incentives, high tax rate' is changed to the concept of 'low rate, wide net'. The new income tax act has 143 sections.

The basic objectives of income tax can be divided into four parts primary objectives are raising revenue, economic objectives of providing fiscal tools to stimulate private investment, reduce unemployment encourage of industries and small business.

Manufacturing is the physical or chemical transform of materials of component into new products by power-driven machine or hand the manufacturing section in Nepal consist of establishments predominantly engaged in manufacturing activities. The manufacturing sector to GDP App. 8% it consist

mainly of light industries. Output value, value added and fixed capital investment are increasing in the manufacturing sector.

In 1961, Nepal had 459 manufacturing establishment. This number reached 1330 in 1965, in 1992 this number increased to 4271 but again declined to 3557 in 199, which reach to now 3213. There is limited mobility of smaller size firms established use only about 50% of their capacity. Low capacity utilization has led to low output, high costs and poor competitive capacity. [Agrawal, Govind Ram (2002) Dynamics of Business Environment in Nepal]

Nepal's industries sector are facing problem of inconsistent government policies and procedures, inadequate for products, poor access to finance, labor problems, tax-related problems, product-related problem and lack of mutual trust.

The manufacturing sector has been divided into the following five sub sector.

- a. Food, beverage and tobacco sub-sector
- b. Textile and garment sub-sector
- c. Chemical sub-sector
- d. The chemical engineering sub-sector.
- e. Electrical electronic sub-sector.

A world band survey of 223 private sector manufacturing firms conduct in 1999 found that overall manufacturing productivity is low in Nepal. Average efficient is the highest in the pharmaceutical, firms located in the Kathmandu were generally growing faster than firms from other regions of the country.

Employment in manufacturing establishment in 1976/77 was 50,120 increased to 2,13,653 in 1991/92. But it decreased to 1,87,316 in 1996/97 again decrease to 1,81,943 in 2003/04. [Agrawal, Govind Ram (2002) Dynamics of Business Environment in Nepal]

In the present context, industrialization is an important factor for achieving the basic objectives of a country's economic and social progress. There is no doubt that industry and trade are the two wheel for economic development but there are certain factors which, in turn foster industry and trade. The present status of development so far achieved in Nepalese industrial sector has been greatly affected by the present taxation policy of the country.

Moreover, taxation policy also includes besides levies other incentives and subsidies for promoting the business sector. In short, taxation should provide proper balance between levies and incentives.

Economic development is not possible unless industrialization take place. Industrialization is a measuring rod whether a country is in prosperity or not. It generates government revenue. In the form of direct tax and indirect tax which in further deployed for industrial development and it turn, acceleration the peace of economic development.

Growth of Industries in Nepal

The pace of industrialization has been quite slow in the context of Nepal. Indeed, an industry is comparatively a new phenomenon in Nepal. Till 1935, the industries in Nepal were limited to various crafts and cottage industries which produced artistic products, cotton and wool, textiles, paper product, rope and baskets wood products and metal products based on iron, copper, gold, silver, brass, bronze etc.

The Biratnagar jute mills set up in 1936 in collaboration with India marked the beginning of organized industry in the country. Industries like the Morang cotton mills (1941), the Morang sugar mills (1946) and Raghupati jute mills (1946) were set up. All these industries were established haphazardly in order to reap quickly benefits from the shortages of consumer goods created by the Second World War.

The Government shifted its policy from led economy to market led development, as a result of which many industries units in public sector were privatized in early 1990s. After the introduction of industries policy 1992, the effort on the side of the government through privatization.

Industrialization is an effort in which the under development countries place a major hope of finding a solution to their problem of poverty, insecurity and over population and ending their newly realized backwardness in the modern world.

In the present context, industrialization is an important factor for achieving the basic objectives of a country's economic and social progress. The broad objectives of tax policy in developing nations is to promote development process for meeting the minimum needs of the masses and improving their quality of life.

The government of Nepal started to emphasized on industrialization under the aegis of development plans the dawn of democracy in 1951. Since than Nepal has been undergoing a rich experience of formulating and implementing the developments plans extended over a period of more then four decades. Three years interims plan also come into existence instead of plan-holiday.

In that plan, special provisions are these for sick industries. Industrialization is a growth of economic development so government should emphasis to promote private sector investment. After government has always been to accelerate the pace of industrial development through privatization.

The incentives and industrialization

Although development counties calling for industrialization, could not achieve easily for the purpose of the industrialization. The Atmosphere of the country must be conduct for such purpose. Incentive measure can play an active role to promote investment in the industrial sector in general. In an under development country it is usually practiced to provide tax incentives facilities to the newly established for the period fixed by the government.

Industries estates are powerful vehicles for promoting and growth of small scale industries by entrepreneurs. They also effective tools to decentralize industrial development in rural and remote backward areas. Industries estates are generally established by the government. They provide various facilities and services needed for industrial development. Under on umbrella such as land site, factor sheds, power, water, infrastructure, repair facilities bank and security etc. The government of Nepal has established 12 industrial estates. But only 11 industrial estates are operating and one area occupied at Dhankuta is not yet developed.

The objectives of Industrial estates are provide infrastructure and accommodation to entrepreneurs, encourage development of small scale industries, growth of established industries, create congenial climate for entrepreneurship development, provide training, research and labour welfare facilities, provide workshop.

The list of 11 industrial estates are Balaju, Patan, Hetauda, Dharan, Nepalgunj, Pokhara, Butwal, Bhaktapur, Dhankuta and Rajbiraj. The fifth industrial district Nepalgunj industrial district, was established in 1974 with grant assistance from India. Other countries who have provided assistance for industrial district are U.S.A., Germany, Netherland. While viewing the all industrial estate, they are covered the total area of 5706 Ropanies among them 5030 Ropanies are developed. The total investment of industrial district (government sector) are 192.7 millions Rs. Where investment of industrialist (private sector) are 8495.4

millions Rs. Total number of industries are 507, among them 397 industries are in operating 74 are closed and 35 industries are under construction in all industrial estates. There are 14178 total employees including 245 district offices employees.

Nepalgunj industrial estate set up in 2030 with the help of Indian AID, covering the total area of 233 Ropanies providing the total employee of 850. There are total 35 industries setup in this N.I.E. among them 20 are operated 6 are under construction 4 are close and 5 are other offices. Total investments in this N.I.E. by government are 20 millions Rs and by private sector are 500 millions.

At the beginning, Nepalgunj industrial estate manage by Nepal industrial development corporation, from the date of Sharwan 1,2045, it was manage by Industrial District Management Limited.

Government has to design the tax policy in such a way that it does not affect the industrial process adversely. There would be a flat tax rate and not a progressive tax. The most important consideration for wants to know is exactly what he will ask to pay, without too much uncertainly vexation or argument.

Tax incentives are frequently employed by developing nations to stimulate private investment and foster economic growth. The regime of fiscal incentives through the corporate income tax has experience significant changed over time.

Nepalese companies in general have been taking advantages of the tax benefit in their strategic planning, project planning and operational planning decision beside these are some tax provision under income tax act and industrial enterprise act which require amendment.

The constitution of Nepal has clearly direct Nepalese Government for a self-reliant economic system encouragement to national enterprises, prevention of economic exploitation as well as upgrading the standard of the people

For self sustain, government must be able to generate sufficient government revenue that is most important source of financing. Through the proper administrative strategy, the national objective can be achieved.

Since, being major source of fund collection of tax should be relatively high to achieve maximum social and economic objectives. Collection of tax helps in redistribution of economics means by the transformation of wealth from person with higher economic level to lower economic level.

Providing incentives and concessions in income tax for promoting industries in background areas may also regional economical imbalance. It has become and effective instrument to ensure balance socio-economical growth.

Beside these, following points should be considered while collecting tax:

-) What is the purchase power of tax payer?

) Are the tax payers feeling in burden?

The income of the government is called public revenue. For self reliant economic system and sound infrastructure of the development, the government should generate sufficient public revenue.

In order to meet the public expenditure, the government has to raise the fund through external and internal resource. External sources of funds are foreign grants and loans.

According to Y.P. panta, "It is a better mobilize internal sources rather than looking with beggars eye to the donors."

Internal sources of public finance is own source in the nation. Based on the nature sources,

Public funds are classified as revenue (public income) and borrowing.

The source o public income are taxes, fees, prices, fines and penalties. Tax is the main source of financing government activities. Int every country the largest part of government revenue is raise through taxation. Tax may be imposed on person or wealth.

According to Hugh Dalton, "A tax is a compulsory contribution imposed by a public authority is irrespective of exact amount, service render to the tax payer in return".

On the basis of impact and incidence the tax may be classified into two types:

-) Direct Tax
-) Indirect Tax

A direct tax is rally paid by the person on whom it is legally imposed. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect taxes are generally imposed on consumption of goods and service.

Income tax is a direct tax is imposed on the earning of individuals and corporation. The underlying for the imposition of income tax is to generate more revenue to finance on development activities and to help in achieving social justice. It helps in achieving social justice. It helps in redistribution of economic means by the transformation of wealth from person with higher economic level to lower economic level Regional economical imbalance may also be reduced by providing incentives and concessions in income tax for promoting industries in backward areas.

Income tax system of Nepal must be reviewed and immediate correction should be made. The major elements of income tax system are: income tax law, policy and its management.

1.2 Importance of Study

The importance of industrial development of the economic needs not to be exaggerated. One of the remarkable contribution made

by industrial sector for the economy is generation of government revenue through taxes.

Among various taxes, customs duties and traditional but an important source of tax revenue. They are the largest source of tax revenue in our economy second largest source in VAT, similarly, income tax is the third largest source of tax revenue. Excise duty is the fourth largest source of tax revenue.

The study is important to know the income tax problem manufacturing industries situated at Nepalgunj industrial estate, which may be beneficiary to both industries as well as government also so that, they can make appropriate tax policy for manufacturing company. Many industries are facing different types of problem inconsistent government policies and procedure poor access to finance, problems related to labour, product, among them tax-related problems also main problem.

The study reflect the view of manufacturing company about their tax-related problems and provide the place for addressing their views and advices. This study also focused that how can tax administration management can be improved and their suggestion to reduce the income tax problems facing by industries.

Their suggestion and recommendation of this study may be useful to government for making appropriate tax policy.

1.3 Statement of the problems

A sound tax system is one of the essential requisite for an economic development. Thus, different taxation policies have been introduced and renewed on timely basis with a view to mobilize internal resources for the development of industrial sector. Some industrialist complains about the lack of clarity predictability and consistency in tax law across time.

Predictability and consistency in tax law across time. It has been observed that tax laws changed frequently and they have been unable to predict the way in which these changes will go.

Manufacturing industries are facing faced by the manufacturing firms are delay procedure, frequent change in tax act, defective tax administration etc.

This study has tried to find out the income tax problems of industrial sector by addressing following research question

-) Does present taxation policy help in providing Conducive environment required for industrial growth?
-) What are the income tax problems of manufacturing companies situated in Nepalgunj Industrial Estate?
-) Whether improper formulation of taxation policy or the poor administration of tax is the main cause of the problem facing industrial sector?

1.4 Objective of the Study

This study is carried out to find the major problems of manufacturing industries.

The specific objectives of the study are:

-) To evaluate the effectiveness of present taxation policies of Nepal
-) To identify the income tax problems faced by industries situated in Nepalgunj industrial estate
-) To suggest recommendation for the removal of income tax problems.

1.5 Limitation of the Study

-) Taxation begins a very complicated and value subject matter, the result of study would depend upon the understanding level of the people whose opinion has been sought.
-) The reliability of the study depended largely upon the reliability and validity of the data.
-) The sample size begins confined to only manufacturing industries of Nepalgunj industrial estate.
-) The data were taken from the only primary source.
-) It is confined to only income tax problems of manufacturing industries.

1.6 Organization of the Study

The study has been divided into 5 chapters, they are:

Introduction

It contains introductory aspect of the study. This chapter includes general background importance of the study, statement

of the problems, objectives of the study, limitation of the study and organization of the study.

Review of Literature

This chapter is on review of literature. Review of related studies through available books, reports and dissertation has been presented in this chapter.

Research Methodology

It includes research design, population of sample, sampling procedure, nature and source of data, procedure of data collection and data processing procedure and analysis tools.

Presentation and Analysis of Data

This chapter has two parts. This First one is concerned with analysis of secondary data and second one is concerned with primary data. Analysis of secondary data contains tax and non-tax revenue in Nepal, structure of government in Nepal, tax/GDP, total revenue and total tax revenue. The secondary part is about analysis of empirical study based on opinion survey has been presented.

Finding, Conclusions and Recommendations

This fifth chapter is designed for finding, conclusion and recommendation. On the basis of this study, certain measure may be found out and suggestion for the further improvement of tax related problems of industries situated at Nepalgunj industrial estate.

1. Vijay Metal industries

This industries established in 2048 with capital investment of Rs.12,22,05,210 by Kanayanalal vaidhya it provides employment opportunity to 110 persons it manufacture mainly cast iron main whole cover (round shape metal cover).

2. Vinod Metal Industries

This industries established in 2037 with capital investment of Rs.5,84,87,000 by Kanayanalal vaidhya it provides employment opportunity to 94 persons it manufacture mainly cast iron main whole cover (round shape metal cover).

3. Vimal Metal Industries

This industries established in 2049 with capital investment of Rs.92,20,000 by Kanayanalal vaidhya it provides employment opportunity to 25 persons it manufacture mainly metal pots.

4. Barsha Metal Industries

This industries established in 2064 with capital investment of Rs.75,00,000 by Kanayanalal vaidhya it provides employment opportunity to 36 persons it manufacture mainly metal pots.

5. Almur Metal Industries

This industries established in 2052 with capital investment of Rs.2,50,00,000 by Nur Ahamed it provides

employment opportunity to 42 persons it manufacture mainly metal pots & metal Circle.

6. Taps & Valves metal Industries

This industries established in 2058 with capital investment of Rs.60,35,000 by Nitin jalan it provides employment opportunity to 48 persons it manufacture mainly taps & valves.

7. Laxmi Plastic Industries

This industries established in 2050 with capital investment of Rs.3,00,00,000 by Jaigopal shrestha it provides employment opportunity to 42 persons it manufacture mainly plastic pipe, plastic chair etc.

8. Tondon Plastic Industries

This industries established in 2046 with capital investment of Rs.2,75,00,000 by R.K. Tondon it provides employment opportunity to 35 persons it manufacture mainly plastic pipe, plastic chair etc.

9. Siddartha Plastic Industries

This industries established in 2048 with capital investment of Rs.65,00,000 by Gopal Khadka it provides employment opportunity to 36 persons it manufacture mainly plastic pipe, plastic chair etc..

10 Krishna Plastic Industries

This industries established in 2046 with capital investment of Rs.1,00,00,000 by Dinesh kashwal it provides

employment opportunity to 40 persons it manufacture mainly plastic items.

11 Modern Doors & Wood Industries

This industries established in 2039 with capital investment of Rs.1,80,00,000 by Champa Lal Bothra it provides employment opportunity to 42 persons it manufacture mainly Plywood & doors.

12. Rijwan Wood Industries

This industries established in 2050 with capital investment of Rs.50,00,000 by Rijwan Ansari it provides employment opportunity to 32 persons it manufacture mainly wood doors and windows.

13. Himalayan Wood Industries

This industries established in 2054 with capital investment of Rs.3,72,00,000 by Hem Raj Neupane it provides employment opportunity to 52 persons it manufacture mainly furniture items.

14. National Wood Industries

This industries established in 2049 with capital investment of Rs.40,00,000 by Dhurba Shrestha it provides employment opportunity to 22 persons it manufacture mainly wooden doors and windows.

15 Vinayak Food Industries

This industries established in 2037 with capital investment of Rs.50,00,000 by Rajesh Maskey it provides employment

opportunity to 20 persons it manufacture mainly Soya bean & bhujia etc.

Data processing procedure and Analysis Tools

Collected data from Primary as well as Secondary sources are firstly tabulated into separate format systematically. The data are tabulate into various tables according to subject matter in order. Then the simple statistical the analysis such as average and percentages are calculated where necessary and they have been presented and analyzed in descriptive way.

Due to nature of study theoretical aspects were emphasized. Table diagram, chart were used to throw more light on the study.

Chapter -2

Conceptual aspects and review of literature

Conceptual Aspects

As mentioned in the income tax act 2058, income means a person's income from any employment, business or investment and total of that income as calculated in accordance with this act and tax means income tax imposed on all those income that lie under the category of income as per this act and also includes fine, fees and penalties payable to the department of tax income. Tax refers to the tax chargeable on the net income of a person earned or received in Nepal within the years of income after making deductions to which he is entitled under this act.

The income tax act divides all sources of income into three groups.

- a. Business
- b. Investment
- c. Employment

Evolution of income tax in Nepal:

It had been only five decades that income tax was evolved in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democratic political system was introduced. In subsequent years, it had been tried to introduce income tax.

In 1959, the first elected government finally introduced income tax. The main objectives for the introduction of income tax were to generate more revenue in order to finance development activities and to help established social justice through income redistribution.

Major issue regarding income tax in Nepal:

Tax base

Tax base lays the foundation for determining tax. Some of the mostly used tax bases are tax on gross asset, tax on business expenditure, tax on valued added. Each tax base has its own merits and demerits. However, most of the countries prefer corporate profit or book profits as the tax base since book profit as a tax base is stronger and supervisor than other types of tax bases.

The word 'profits' means net income i.e. total revenue less total expenditure. For computing taxable income, profit as per P&L account. Serve the basis the P&L account shows certain expenses and losses which are either fully or partly disallowed under the provision of income tax act. Similarly, there are certain incomes, which are fully or partly tax-free.

Tax Incentives

The incentive is an integrated part of the tax system for accelerating the pace of industrialization is most of the developing countries.

The incentives may differ from country to country depending upon the economic and political climate. However, they are generally in the form of investment allowance. Investment tax credit, development rebate, depreciation allowance, tax holiday, carry forward of losses development of backward regions, rehabilitations of sick industries.

In the context of Nepal, a tax incentive is in the form of various facilities and concessions provided to the industrial sector which, in turn, reduces the effective tax rate. Industrial enterprise act 1992 provides tax benefits to attract private investment to the industrial sector of the country.

An overview of industrial enterprise act 2049:

The role of industrialization to achieve industrial development need not be over exaggerated. Industrialization, in fact, is the base and backbone of the economic development of any country. However, to promote and develop industries is not an easy task. There are so many factor that are required for industrialization a country such as capital, labour, technology efficient entrepreneurship, good business environment and above all favorable law and related rules and regulations that affect industrialization.

To achieve success in the path of industrialization, enactment of appropriate laws, rules and regulation relating to industry are of utmost necessity.

It is with this view in mind that Nepal enacted “Industrial enterprise act” for the first time in the year 2030 B.S. It was replaced by another industrial enterprise act in the year 2038 B.S. which was replaced in 2049 B.S. At present, industrial enterprise act 2049 is in practice.

The objectives of this act which has been yearly is as follows whereas for overall economic development of the country, it is expedient to make arrangement for fostering industrial enterprise in a competitive manner through the increment in the productivity by making the environment of industrial investment more congenial, straight forward and encouraging.

This act is divided into 30 sections and section 15 deals with the facilities and concession according to the industries. Such facilities and concessions can be listed as follows:

1. Industries getting exemption of excise duty, sales tax/income tax.
2. Industries getting excise duty and sales tax exemptions for 5-15 years.
3. Expenses that can be deducted while determining the net profit.
4. Conditions at which excise duty, VAT custom duty, premium etc. may be reimbursed to the industry.
5. While calculating depreciation fixed assets, industries will be entitled to add one third to the rate of depreciation allowed under existing-tax rate.

All these facilities and concession are according to the industry top help country’s development through industrialization. The

contexts of IEA 2049 are quite good but due to its poor implementation it has not been as much as effective as it should be.

According to industrialist, the improper implementation of IEA 2049 is the root causes for the ineffectiveness of IEAs, it is very difficult for the industrialization to get the refund of taxes so paid.

After the enactment of income tax act 2058, several point regarding facilities and concessions of section 15 have been abolished. Despite this, the industrialists are confident that IEA can be boom to them if due consideration is given in its implementation.

The literature available in connection with tax problems of manufacturing is very limited. On the other side, no satisfactory research has been carried out in Nepal on this research has been carried out in Nepal on this realm so far. As such, the review of literature in Nepalese context has become difficult one.

Several books, dissertation, reports journals, and articles published in newspaper are reviewed while preparing this review. While reviewing, it is felt that there is shortage of sufficient journals, articles and book concerning this subject matter. Since 1959/60 income tax was started in Nepal. After its establishment, different individuals and institutions have studied in this topic, regarding legal aspect, administrative problems, historical aspect, trends of income tax, income tax system etc.

While reviewing the books, it was found that most of the books were syllabus oriented and some of them had described the problem and impact of tax upon industries.

Many studies are made in the income tax system/management in Nepal, but few were related to the tax problem of manufacturing industries.

Seeing the lack of sufficient books, reviewing is done with the limit resources.

This study is also the outcome of only limited literature.

Review of Literature

In the dissertation 'Impact of industry policy (1981) is the process of industrialization of Nepal by Nirmala Bajracharya, the study suggested that if economic development through, industrialization has to be attained, then.

-) Facilities like tax incentives and tax exception should be followed strictly
-) Policies should not be changed frequently.
-) Legal protection should be provided to industrialists.

Dr. Govind Ram Agrawal has expressed his view in his book that, advance payment of income tax, VAT and local taxed has posed problems for the industrial sector. The duty drawback system is cumbersome and time consuming. Lack of timely reimbursement of duty paid in advance for export is the biggest

tax problem of industries. The payment is made in the form of bonds to exporters. Their redemption is questionable. The tax regime is unfavorable to industries. The government procedures are too cumbersome for reimbursement of taxes.

Rup Bahadur Kahdka (1994) had presented a book named 'Nepalese taxation path for reform' in this book, he had described the economic policy of Nepal, VAT as a long term tax for Nepal. Improving tax administrations and tax reform strategy.

He had identified the major problems of tax administration. They were weak tax administration imbalance and inadequate organization pattern, debatable scope of revenue investigation department, lack of adequate information system, lack of coherent tax policy inadequate physical and other facility.

First of all in 1965 Mr. Kedar Bahadur Amatya has published a book 'Nepal ma Ayakar Bebastha'. This study is only the description of the income tax system of Nepal. He analyzed basically the legal aspect of the income tax.

Master level dissertation on "a study on problems & prospectus of income-tax in Nepal" was presented by Naina Nepal in 1983. The basic concern of her work is role, problems and prospectus of income-tax in Nepal.

She emphasized on the wide coverage of income-tax and reduction of income tax corruption in order to increase the contribution of income-tax to national dev.

Another dissertation on “tax incentive and industrialization” was presented Deepak koirala in 1985. The basic concern of his work is to find out the cause of poor industrial performance in Nepal. He suggested that policy maker and industrialists have to go side by side for the better result. He concluded that tax exemption provision has found very effective to develop the industry of the country.

He focuses his study mainly in industrial policy tax, incentives, tax holiday for developing of industrialization.

Manidev Bhattarai had critically analyzed the income tax facilities provided by industrial enterprise act 2049 in his draft ‘Income tax facilities provided by industrial enterprise act 2049’ an analytical. He had described the facilities given to the industries. He had critically analyzed these facilities given to the industries continuous 7-8 years exemption of income tax will develop the tradition of taking exemption by incorporation legal way. The deduction allowed on modernization of industry, pollution control device, technology and product development etc. will protect only big industries it will not affect to the small industries.

Govinda Bahadur Thapa had published a draft to tax system and its reforms in Nepal as descriptive way, business age vol-4, ktm. 2001. He had described the tax system feature to tax, cause of reform the tax and area of reform. He further added “Taxed were levied at the manufacturing rather than retail stage”. Too many tax incentives and tax holidays narrowed the

tax base and revenue collection had to be increased from that raising of tax rules.

Rabindra Shakya, dissertation presented by him on 'A study on income-tax collection from commercial banks' in 2003. He said that it may simply a partial of full exemption from one or a variety of taxes and special allowances for a certain period to motivation the new and existing organization for balanced regional development.

The most popular tax incentives provided to various types of activities different countries of the world are tax holiday, investment allowance or tax credit, accelerated depreciation rate, tax rate reduction and forward of losses.

He also focused on the tax-related problems faced by manufacturing companies, he recommends that government should make flexibility in making various laws to make incentives. Corporate tax rate for industrial enterprise as well as non-industrial business organization should be same.

A special fee of 1.5% should be abolished tax personnel should improve their behavior towards tax-payers. To increase tax collection, the settlement of tax appeals from tax-payers should be quick with right decision. He recommends at the last that tax administration, tax laws and provision should be simple and clear.

Nepal chamber of commerce had conducted the study report in 2053 to find the impact of VAT on different sector. They found

that it may affect to production, balance of payment, reduction in Indian tourism because they come to buy Chinese product in Nepal, affect to small tax payer, increase administration cost of tax-payer.

They had provided the recommendation that there should wide discussion between political party, industrialist, farmer and other concern party too.

Damber Jung Shahi, expressed his view that industrial enterprise act 2049 (15) has provided tax exempt to small and cottage industry. According to him, cumbersome tax systems are one of the main causes of unsystematic growth of industry.

Fiscal years 2063/64 budget provided 50 crore Rs. To sick industry for recover. Tax exempt for 10 years if established in 22 remote districts except negative listed industries. Tax increase by 5% alcohol, Beer, Cigarettes along with excise duty also. The industry which establish in special economic zone total tax exempt has granted for 5 years and then 50% exemption in consecutive years.

Dr. Rup Joyti expressed his view on “Effect of VAT on Nepalese Industry”. According to Dr. Jyoti, VAT affect in 3 aspects. Pricing, stamping on bill and thirdly about taxing. He also wrote that yet there is no change in tax administration. They thought that industrialist only evade the tax, there should improvement in VAT refund procedure. He also concluded that yet now, VAT has a positive affect on industry hence there should be improvement in tax administration by change in their mentality.

According to Editorial published in Nepal tax journal (2063/64) about alternative and option for an efficient, modern, fair tax administration system. Editorial concluded that customs value on import are often not vary closely related to transaction prices they are generally less but the divergence differ considerably across product.

They recommended that custom administration must be improved, eliminate recently introduced import duty surcharge, improve efficient of the duty-drawback.

Mr. Pai makes a detail analysis of impact of tax system upon industries. He concluded that of the numerous tax, which they to pay, the first and foremost are excise duty, these in recent years assumed great important because of the progressive raise in the rates, today most of these industries have not only raised prices in proportion to the rise in excise duty. But in many cases there have been a fall in the price because of internal competition and inability of these industries to hold the stocks for any length of time.

Karna B. Poudyal described about the tax planning system in Nepal According to Poudyal, these company is general have been taking advantage of tax benefit in their strategic planning, objective planning and operational planning decision.

However, there are still many companies which have failed to do so either because these companies didn't have effective tax planning system or could not get advantage of tax benefit.

So he provided some suggestions. Tax rebates to Non-industry Company to set up in industrial backward area. Partial exemption of export earning different tax rates for resident and non-resident companies.

Tax incentives for revival of sick units, separates tax section to be set up by companies.

Madhusudan Pokheral concluded the benefit by the budget of fiscal year 2063/64. He concluded that there is tax exempt for raw materials and packaging material to pharmaceuticals industry. Government reduces the tax by 5% to the goods import from SAARC. The goods which are imported by all industry under recommendation of department industry title 309760.00 are fully exempted in custom duty on pet chips.

Taxation policy and financial decision by Dr. S.N. Mittal conducted a research about 30 companies in 1990, he concluded that introduction of tax incentives greatly affect the investment policy of 14 out of 30 and fully affect the 5 out of 30 companies. He concluded that tax policies greatly affect financial decision, investment decision and dividend decision.

In the dissertation 'Taxation policy: Its problem and prospectus upon industries in Nepal' by Mangi Pradhan, focused his study to evaluate the effectiveness of present taxation policies of Nepal, to identify the problems faced by industrial sector in complying with tax procedures, evaluate the current performance of the industrial sector and suggest remedies for successful implementation of various taxation policies in Nepal.

He recommended that custom process should be made simpler and easier. Fraudulent attempts and border smuggling are the main constructions for industrial growth must be continuous effort from the both countries for improvement in the control mechanism on the border areas.

VAT refund mechanism should be simplified so that the refund can be made delay.

Acts and rules relating to various aspects of tax as well as the industrial policy should be amended as per the requirement of business organization.

Mani Kumar Nepal in his dissertation "Structure & responsiveness of Nepalese tax system (1995)" concluded that given amount of revenue can be obtained with higher tax rate if base is normal which leads to useful with smaller rates. He made recommendation that there should sound administrative capability for increasing the built-in elasticity of Nepalese tax system. There should broading tax base and lowering tax rates.

Another dissertation on "Problem & prospectus of listed manufacturing companies in Nepal" by Renu Prasad Pandey, focused her study mainly to examine & analyze current problem & suggest that prospects. She concluded that main problems are lack of raw material, based government policies, low managerial efficiency. She made recommendation that government should make clear tax policy as well as their policies related with industrial sector. She made recommendation in the context of government role, civic society and LMC's themselves.

Rinku Shrestha in her dissertation “Problem and prospectus of listed manufacturing company in Nepal” made recommendation that performance of listed manufacturing company is very poor so they should perform well, few manufacturing companies are listed in security board.

Dig Bahadur Karki in his study value added tax problem in Nepal focused mainly to examine the problem of VAT in Nepal he made recommendation that tax related information should be published regularly. The members involved in formulating should be published regularly. The members involved in formulating VAT polices must have deep knowledge VAT. Administration should be very watchful to prevent and kind of malpractice, fraud and tax evasion. Tax authority should be continuous effort in order to develop the tax payer’s positive attitude toward taxation.

According to Bhawani Dhungana taxes especially indirect taxes contribute a substantial portion to the total revenue. So revenue mobilization through taxation is emphasized. Custom duties have a far-reaching implication for international trade and domestic industrialization.

He concluded that any kind of tax policy will never satisfy every one since it has to serve confliction objectives to with different individuals and group attach different weight. The thesis entitled corporate tax system and investment behavior in Nepal by Pushpa Raj Kandel. Submitted for the degree of doctor of Philosophy makes a detailed analysis of impact of taxation

system upon investment in corporate sector of Nepal. The study focuses on:

Evaluating the present corporate tax system especially the provisions relating to tax burden in Nepal he has also found that the tax rate reduction in last 25 years has played positive role to increase the corporate investment.

He has appreciated the government policy of replacement of full tax holiday system through amendment in industrial enterprise act 1992 in 1997.

M.D. Bryce has expressed his view in his book that tax measure is responsible to develop the industrial sector of the country. In his opinion, the tax incentives are able to attract private investment in the country.

Tax exemption will be made for temporary period, which will later be taxable and become permanent source to government revenue.

Thus, by the simple way, with the tax exemption a country can accelerate its industrial performance. In the report of the UNIDO, incentive policy for the industrial development, seminar report held in Vienna, 10-21 March, 1969 concluded that tax incentives was considered as widely used phenomena by the government of developing countries to promote industrial development. Most development countries so far offered a similar set of incentives for both import substitution and export oriented industries.

A few developing countries had begun to offer stronger tax incentives for export oriented industries and this practice might be more widely followed in future.

Bhavani Dhungana has expressed his view that since excise duties constitute the third largest revenue earning sources in the countries, proper implementation of the excise system will be able to bring sustention amount to the government exchequer.

He had further expressed his view that present tax structure of country is heavily relying on the indirect tax. It has also been agued that the effective rates of indirect tax are quite high in Nepal. Government has to realize that any kind of tax policy will never satisfy everyone since it has to serve confliction objectives to which the different individuals and groups attach different heights.

Dr. Hari Dhoj Pant and express his view in research paper that, it is assumed that as the rate of custom duty is low that is a revenue earning custom duties and as the custom rate is higher that is for protection a) Lower the rate of export duties case for export promotion and vice versa b) Higher the rate of import duties-case for import substitution and vice versa.

A study on industrial problem, held by industrial services center and FNCCI had concluded that there should co-ordination between ministry of industry and ministry of finance to render the different services and facilities, effective implementation of industry policy quantitative restriction by increasing the custom duty on import goods to give protection to domestic industries; it should provide the facility to those industries and also rewarded

to those industry who operate these industry earlier that their operating time.

Amrit Regmi, had expressed his view that Nepalese industries are facing so many problems and challenge. In 2010 B.S. the first industrial enterprise Act came into existence to develop the Nepalese economy in systematic and planned way. Form the longtime, sometime provides the facilities and benefits and so the times were cut by new act.

He conclude that industries are facing problems of duty draw back, tax assessment and exemption, local tax, industrial estate and availability of fund.

Nicholas Kaldor express his view that there is everything to be said for proceeding cautiously in introducing major reforms in tax system, as usually frequent change in the laws are themselves a major source of uncertainty and lack of confidence. Tax is a most complicated to administer. An income tax which can not be effectively and impartially administered between tax payers in different circumstance is quite capable of producing the opposite result.

Walter R. Mahler, JR. had made recommendation that it has been argued that it is desirable to restrain the tendency to use excise taxation for minor policy reason. Many Narrow exemptions probably result in more loss of revenue by way of evasion. The desirable of using exemption and concessional rates of excise duties to provide special advantages for small scale producer has been questioned.

The greatest criticism of excise exemptions and concessions in favor of small scale manufactures is that they encourage fragmentation and / or restrict expansion. If it is really felt to be desirable to give aid to small scale manufacturing, then direct subsidies would be preferable.

While the use of excise preferences for the small-scale sector within an industry is undesirable, those industries where small scale manufactures predominate might be exempted from excise duties on administrative ground. Where it is difficult to ascertain precisely the amount of raw materials and component parts that have gone into the finished exported products.

The main criticism of specific excise duties is that they reduce the income elasticity of the excise system during the periods of inflation. Frequent changes in excise duty rates have an unsettling effect on producers, consumers and tax administration.

Whenever the basic excise duty rates are increased, the additional excise duty rate should be raised proportionally. He had recommendation that most, if not all commodities should be taxed on an advalorem basis, only finished products should be taxed.

Christopher J. Heady expressed his view in his book that the use of taxes to encourage or discourage particular industries can be quite effective in an economy with limited foreign trade. Change in taxes will no longer have as such a large effect on domestic

production because a tax change that alters incentives for domestic producers will also alter incentives for importers.

Thus, a tax reduction will stimulate imports as well as domestic production. The effects of tax changes are however very different on plan transaction and free market sales. A tax increase will reduce enterprise profitability on sales at fixed price but will not distort consumer choice. It will be assumed that the change in tax rates has no effect on the output or value added in any industry. This analysis could equally well be applied to an industry that would suffer an increase in taxation following attempts to unity the V.A.T. In general, the effects of tax changes or profitability will be smaller for industries that sell high proportions of output at free market prices.

A developing country which is introducing a manufactures tax should base the taxable value on the "arm's length price" at which a manufacturer would sell to a wholesaler. The disadvantages of a manufacture's tax for a developing country are broadly the same as those. For an industrial country there is first the pyramiding effect. A manufacture's tax may also unduly influence the economic development of industry by discouraging manufactures from integrating forward. A manufacturer's tax provides a border coverage them does a system of excise tax.

Export taxation has a long history it is enjoying renewed interest among developing countries because recent have raised the relatives domestic price of export by lowering import protection and depreciating the real exchange rate. As a result, several countries are asking whether these experts should be taxed.

Industrial protection therefore result is a tax exports, which must be taken into Account when designing trade policy for commodities exports. The base for company taxation is defined as pre-tax operating profits adjustment for various allowances. Among these allowances, the most important are the depreciation.

If company taxation discriminates among sectors or assets, the allocation of investment will be distorted. The traditional view of direct versus indirect taxation is that taxes create dynamic distortion by reducing saving and investment, while indirect taxation leads a static distortion.

In the dissertation 'theory and practice of tax planning in Nepal' by Bidur Karki focused his study to analyze the tax planning practices followed by Nepalese companies and to provide suggestions to Nepalese companies/Business house to use tax planning.

He made suggestion that there should different tax rate for resident and non-resident companies, tax rebates to non-industrial company setup in industrially backward areas, provision of best judgment assessment in true spirit, provision of interest on unpaid tax and refund, separate tax section to be setup by companies and tax incentives for revival of sick units.

R. S. Suwal (1981) described and examined various problems in Nepalese tax system, importance of income tax in solving the financial problems in Nepal and economic effects of income tax

on production and trend of income tax in her dissertation income tax system of Nepal. The problems and noted by her are the absence of clear and comprehensive definition of income, low paying capacity and tax consciousness, high tax rate corruption.

In the dissertation 'A study in tax administration in Nepal by Milan Ghimire focused his study to analyze tax administration system in Nepal and to provide suitable recommendation for improving existing scenario of income tax administration.

He made conclusion that without efficient tax administration, tax policy does not work. So time-to-time measurement of tax administration and its reform is must. To increase the efficiency of tax administration reform of tax administration is needed on all forms such as the organizational structure, the personal system, the incentives package, tax procedure, automation and the appeal system.

Kamal Deep Dhakal Express his view in his book that income tax Act. 2058 has provided the lots of facilities and benefits to industries. He appreciates the present tax act 2058 because of the different provisions and features.

He further add that the 1950 concert of "high incentives high tax rate" is changed to concept of "low rate, wide net" According to him, developed countries provided investment allow once and accelerate deprecation, where as developing countries provided tax holiday for the purpose of promoting the industries. Nepalese government change its course and abolished most of the tax facilities provided by industrial enterprise act. He further

expressed his view that most Nepalese companies are facing problems of discretionary power of tax administration, unclear and in-transparent income tax related provisions, tax submission procedure incompatible of self-assessment system, Narrow base of tax, provision of appeal, abolition of various tax related concession, rebates and exemptions. This act has abolished all the unnecessary tax facilities, concession and incentives given by industry enterprise and other acts.

Parameshwar Pant in his dissertation 'A study on income tax management in Nepal (1996) focused his study to review the income tax system of Nepal and to identify the problem of income tax management. He expressed his view that income tax payers have been facing many problems like will behavior of tax law and income tax assessment procedure, insufficient benefits and facilities, high degree of corruption, lack of confidence and co-ordination between tax authority and tax payers. He made recommendation that discretionary power granted to tax offices should be reduced, clear cut provision should be made, separate 'tax information section' should be established under the tax office and continuous effort should be established under the tax office and continuous effort should be done by tax authority in order to develop the industry's positive attitude towards taxation.

Mr. Durga Prasad Ghimire in his dissertation "a study in tax administration in Nepal" (2050) focused his study to analyze tax administration, problems of income tax management in Nepal. He gave emphasis to provide sufficient incentives industries, made clear and comprehensive definition of income. He pointed out the major causes and regulation in theory and practice.

He pointed out the income tax problem tax problem faced by the manufacturing company in Nepal like unclear provision, lack of systematic evaluation and control mechanism, poor reward and punishment system, unclear definition of income, discretionary power of tax administration, improperly implemented of tax act, frequently change in act, lack of trained and competent tax staff, complicated tax laws, defective procedures, lack of adequate physical facilities and resources in the tax office, lack of good tax audit personnel.

Damber Pant in his dissertation 'tax incentives and industrialization' (1997) focused his study to the tax exemption policy of government, whether remote area allowances policy helps to scatter the industry of the country. He raised the questions like that whether the tax exemption provision of the tax policy is suitable or not, industry benefited by tax. Exemption provision or not, how tax incentive effect on choice of location.

He summarized that tax exemption provision he found vary effective to develop the industry of country. He made recommendation that it is necessary to eliminate the gap between policy make and industrialists some new regulation should be make, it is necessary to start good monitoring system.

Chandra Lal Shrestha in his dissertation "Nepalese tax system" (1995) focused his study the facilities like tax incentives and tax exemptions provided to industry, taxation provisions made in

industrial policy and problem faced by industrialist relating to those provision.

He further add that he the organizational structure of tax administration is defective, tax administration is week, traditional and corrupted. HE suggested that broadening the tax base, simplification of tax procedure, modernization of tax administration, providing comprehensive training to tax officials, providing incentive package to motivate tax officials, computerizing tax administration, VAT refund mechanism should be simplified, tax officials should co-operate with tax payers on tax audit matters, procedures relating to various taxes like payers on tax audit matters, procedures relating to various taxes like income tax, VAT must be simplified.

Chapter 3

RESEARCH METHODOLOGY

For the achievement of the desired objectives this chapter is devoted to the research methodology applied in the study. secondary as well as primary data are used in this study. opinion survey technique is adopted while collecting the primary data to find out the opinion of respondents representing different groups related to income tax. while conducting this survey questionnaire are distributed to the different Industry.

3.1 Research Design

for empirical research an opinion survey has been conducted. the opinions of 10 industries situated at nepalgunj industrial estate have been selected for study opinions of the respondents are collected through questionnaire the questionnaire contain that opinion about tax administrant tax rate tax system income tax problems of their organization and other aspects of income tax system in Nepal with necessary suggestions to reduce their income tax problems hence the research methodology followed in the study can be termed as survey cum analytical research design

3.2 population and sample

in order to fulfill the objectives 15 industries are selected for this study out of them 1 industries are food processing industries like 4 industries are plastic udyog 6 industries are mental industry and 4 industries wood processing industries the

respondents have been divided into 4 groups the following table show the group of respondents and the size of sample the respondents are selected here very carefully from list received due to lacking of geed industries situated at nepalgunj estate and some other limitation only 15 industries are selected for this purpose.

Table 3.1 Group of respondents and size of sample from each group

SN	Group of respondents	Sample distributed
1	Plastic udyog	6
2	metal udyog	4
3	food processing udyog	4
4	wood processing udyog	1

Total industries	35
Operating	20
Under construction	5
Closed	4
Other offices	6

3.3 Sampling procedure

Random sampling technique has been used to select the target and sample selection the views of respondents have been collected on the basis of stratified selection by distribution questionnaire individually.

3.4 Nature and sources of data

In order to achieve the main objective of this research both primary as well as secondary sources of data are collected the collection is done in accordance to the availability and usefulness of it during this study but secondary data used very less compare to primary data it is constraint to only tax and non tax revenues sources only

3.4.1 Primary sources of data

Primary sources of data have been collected in nepalgunj industrial estate to know the opinion of the respondents a structured questionnaire gad distributed the entire questionnaire has covered the main theme of this research and necessary suggestions for achieving objectives of this study.

3.4.2 The secondary sources of data received from the books journals newspapers reports dissertations etc the major sources of secondary data are as

- 1 economic survey and budget speeches (ministry of finance)
Nepal govt
- 2 dissertations relating to income tax tax administration
- 3 books related to income tax and tax administration.

3.5 Procedure of data collection

A set of 15 questionnaires were developed and distributed to the selected 6 groups of respondents individually in order to get accurate and actual introduction in time distribution was carried

out personally the questionnaires were administered personally to the respondents and additional information was also collected through interview with respondents for secondary data information has been collected from published report (economic survey ,2006)

Each sample was selected in such a way that it represented a group of industry opinion were sought from those who were mainly involved in tax accounting questionnaires were extensively used for this purpose

3.6 Data processing procedure and analysis tools

Collected data from primary as well as secondary sources are firstly tabulated into separate format systematically the data are tabulated into various tables according to subject matter in order then the simple statistical the analysis such as average and percentages are calculated where necessary and they have been presented and analyzed in descriptive way

Due to nature of study theoretical aspects were emphasized table diagram chart were used to throw mere light on the study

Chapter 4

DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data and information with the taxation in Nepal. Full attention was given to find out the income tax problems of industries situated at Npj industrial estate. At the end, empirical investigation based on opinion survey has been presented with relevant sub topics.

4.1 Structure of tax and non tax revenue in Nepal

From the year 1987/88 to 06/07 the amount of tax revenue found to be increasing every year with the amount of :Rs. 575.8 million to 71,126.73 million in 2006/07 million.

The maximum contribution of tax revenue to total revenue was 80.86% in the fiscal year 1988/89 and was minimum up to 73.08% in 1991/92.

The trend of the non-tax revenue collection was also fluctuating during the period from 1987/88 to 06/07. The contribution of non-tax revenue was 1937.6 million in the fiscal year 1987/88 and reached up to Rs. 16585.36 million in the year 06/07.

However, there is fluctuation in the revenue from time to time, in the FY 1988/89, 1992/93 and 1996/97, the non tax revenue collection declined in comparison to previous year but it is in increasing trend in the rest of the years. The contribution of non-tax revenue was 21.74% in FY 1987/88 to 19% in FY 2006/07.

On the other hand, non-tax revenue is another portion in contributing revenue structure of government non-tax revenue

has also increased from fiscal year 1987/88 to 06/07 it increased from Rs. 1597.6 million to 16855.36m .

The average contribution of non-tax revenue to the total revenue for past 19 years is 21.84%.

Table 4.1

Composition of Tax and Non-tax Revenue in Nepal (Fiscal year 1987/88 to 2006/07)

(Rs. in million)

FY	Total Revenue	Tax in Rs.	Revenue in %	Non Tax Revenue	
				Rs.	Percentage
1987/88	7350.4	5752.8	78.26	1597.6	21.74
1988/89	7774.9	6287.2	80.86	1487.7	19.14
1989/90	9287.5	7283.9	75.43	2003.6	21.57
1990/91	10729.9	8176.3	76.20	2553.6	23.80
1991/92	13512.7	9875.6	73.09	3637.1	26.92
1992/93	15148.4	11662.5	76.99	3485.9	23.01
1993/94	19580.8	15371.5	75.50	4209.4	21.50
1995/96	24575.2	19660.1	80.00	4915.2	20.00
1996/97	27893.1	21668.0	77.68	6225.1	22.32
1997/98	30373.5	24424.3	80.41	5949.2	19.59
1998/99	32937.9	25939.8	78.75	6998.1	21.25
1999/00	42893.7	33152.1	77.29	9741.6	22.71
2000/01	49939.9	38865.1	77.49	10028.1	20.51
2001/02	50445.6	39330.6	77.89	11115.0	22.12
2002/03	56229.7	42587.0	77.0	13642.7	23.0
2003/04	62331.0	49173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	83.48	6847.1	16.52
2005/06	41452.1	3460.5	83.48	6847.1	16.52
2006/07	87711.4	71126.73	81	16585.36	19

Source : Economic Survey, 2006/07

4.2 Tax/GDP Ratio in Nepal

Nepal is one of the lowest taxed economics in the world. The moderate tax GDP ratio ranged from 15 to 18 percent in other developing countries (world Bank report). But in Nepal it is obvious from the fact that tax/GDP ratio never exceed 10% and it was clustered around eight percent, in average.

It is cleared that the growth rate of contribution of tax revenue GDP is in positive direction but in slow rate and some how in fluctuation.

Table 4.2

Tax Revenue as Percentage of GDP (FY 1988/89 to 2006/07)

FY	GDP	Tax Revenue	Tax Revenue as % of GDP
1988/89	85831	6287.2	7.32
1989/90	99702	7283.9	7.30
1990/91	116127	8176.3	7.04
1991/92	144933	9875.6	6.81
1992/93	165350	11662.5	7.05
1993/94	191596	15371.5	8.02
1994/95	209974	19660.1	9.36
1995/96	239380	21668.0	9.05
1996/97	269570	24424.3	9.06
1997/98	289798	25939.8	8.95
1998/99	330018	288752.9	8.71
1999/00	366251	33152.1	9.05
2000/01	394052	38865.1	9.86
2001/02	406138	39330.6	9.68
2002/03	439546	42587.0	9.73

2003/04	474919	48173.0	10.16
2004/05	508651	54104.7	10.64
2005/06	557869	3460.5	6.20
2006/07	671006.80	71126.73	10.60

Source : Economic Survey, 2006/07

* Preliminary Estimate for First eight month

4.3 Structural Condition of Income Tax

The income tax structure of Nepal is presented in table 5.5. The income tax structure of Nepal is the composition of tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and tax on interest.

Here, public enterprises consist of 100 percent government ownership and semi-public enterprises include more than 50 percent ownership of government. A private corporate body means public limited companies, individuals denote the sole traders, partnership and private limited companies and remuneration refers to salaries earned from the services provided to government and non-government sectors.

Table 4.3
Structure condition of income tax (FY 1999/00 to 2006/07)
(Rs. in million)

FY Particulars	1999/ 00	2000/ 01	2001/ 02	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07
Total Income Tax	7420.6	9114	8903.7	7966.2	9245.9	10159.4	10896.45	15621.43
I.T. from PE	1340	1930	1429.9	1236	1531	2467.6	3522.7	5711.30
I.T. from Pvt. Companies	900	1130	1170	1167.6	1250.7	1528.8	1687.04	1987.15
I.T. from Industries	3016.4	3200.5	4419.1	3362.3	3533.4	3926.3	2946.3	4786.20
I.T. from Remuneration	451.5	597.3	835.6	1252.6	1391.2	1675.9	1751.5	2028.86
Tax on interest	414.4	463.9	467.7	864	733.4	757.0	757.03	996.15

Source: Economic Survey, 2006/07

4.4 Contribution of Income Tax of GDP, Total Revenue, Total Tax Revenue

Nepal is facing a serious and growing financial resource gap and her need for mobilizing additional financial resource form domestic sources through taxation has been urgent. The base for levying tax may be consumption, income and capital. Taxes on income and capital are known as indicate taxes.

Income tax has been a pivotal element in direct tax and it is playing an important role to generate government revenue for the development of national economy.

4.5 Structure of direct and indirect tax in Nepalese Tax Revenue

The structure of Nepalese tax direct tax revenue and indirect tax revenue is presented in table 4.7 in term direct tax revenue and indirect tax revenue from FY 1999/200 to 2006/07.

Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax etc whereas indirect tax includes VAT, customs, excise duty, entertainment tax hotel tax, air flight tax, contract tax road and bridge maintenance tax etc.

From the table 4.7, it is clear that the whole Nepalese tax structure dominated by indirect tax revenue.

The contribution of direct tax revenue is very low in Nepal in comparison to the advanced countries like USA, UK, Japan because being an under developed country the people of Nepal live in subsistence level and all of their income is spent on consumption. As a result, direct tax cannot produce more revenue than indirect tax,

The volume of direct and indirect tax was Rs. 10102 million and Rs. 4742 million that is 17.56% and 82.44% of total tax revenue respectively in the FY 1987/88.

The amount of direct tax revenue increasing every year as up to 18980.29 million in the 2006/07.

Table 4.4
Structure of Direct and Indirect Tax Revenue in Nepal
(FY 1999/00 to 2006/07)

FY	T. Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Rs.	%	Rs	%
1999/00	33152.1	8951.5	27.00	24200.6	73.00
2000/01	38865.1	10159.4	26.13	28705.7	73.87
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587.0	10105.8	23.73	32481.2	76.27
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	34605.0	13071.8	24.16	41032.25	75.84
2005/06	7742.1	7742.1	22.37	26862.9	77.63
2006/07	71126.73	18980.29	26.69	52146.44	73.31

Source: Economic Survey, 2006/07

Figure 4.6 Structure of Direct and Indirect Tax Revenue in Nepal

The percentage of direct tax revenue to total tax revenue is fluctuating every year. It was 27 percent of total tax revenue in FY 1999/00 and increase to 26.69% in 2006/07. The amount of indirect tax revenue is in increasing trend, It has increased from Rs. 24200.6 million in 1999/00 to Rs. 52,146.44 million in 2006/07.

The contribution of indirect tax is Rs. 26862.9 million for the first eight month of 2005/06. Indirect tax has a dominant role in total tax revenue which is near about 73.31 in 2006/07. Comparison of economy is on indirect taxation. To direct the economy into channel of development it is necessary to increase

the share of direct tax, ultimately decreasing the share of indirect tax.

Therefore, the alternation showed be focused on the sufficient resource mobilization through direct taxation.

Table 4.5:
Structure of Direct tax in Nepal (FY 1999/00 to 2006/07)

Fy	Income Tax	Land Rev. & Reg.	Urban House	Vehicle	Other	Total Direct
1999/00	7420.6	1015.9	118.5	396.1		8951.5
2000/01	9114.0	612.9	2.9	429.6		10159.4
2001/02	8903.7	1131.8	2.3	559.7		10597.5
2002/03	7966.2	1414.3		559.5		10105.8
2003/04	9245.9	1697.5				11912.6
2004/05	10159.4	1799.2				13071.8
2005/06	5135.6	1207.3				7742.1
2006/07	13379.89	5600.40				18980.29

Source: Economic Survey, 2006/07

4.6 Composition of Direct Tax in Nepal

The structure of direct tax revenue of Nepal is presented in table 4.8 form the fiscal year 1999/00 to revenue and registration, urban house and land tax, vehicle tax and other.

Among various direct tax revenue income tax has occupied the supreme position, the revenue from income tax varied from Rs. 596.1 million to Rs.13379.89 million from 1987/88 to 2006/07.

In fiscal year it covered the 77.72% of total direct tax similarly land revenue and registration come in the second position carrying 13.76 percent of total direct tax.

4.7. Empirical Study

An empirical study has been conducted in order to find out various aspects of income tax problem of industries located at NPJ Industrial Estate. The major tool used for this purpose is an opinion survey. While conducting the investigation 15 sets of questionnaire were distributed to the different industries. The questionnaire was given to the financial manager incharge of the tax management.

The response received from various respondents which have been analyzed, tabulated and analyzed in response of Yes/No and ranking of choice according to number of alternatives where first choice was most important and the last choice was least important and the last choice as least important. If the number of alternative were ten, then the first preferred choice gets one point then the last choice gets point ten, preferred choice get one points and thus in sum which have less number was ranked as the most important choice. Most important choice gets the one and least choice gets ten.

Table 4.6

Group of Respondents and Code Used

S.N	Group of Respondents	Sample Distributed	Code
1	Plastic Udyog	6	A
2	Metal Udyog	4	B
3	Food Processing Udyog	4	C
4	Wood Processing Udyog	1	D
Total		15	

1. Attitude towards Effectiveness of present Nepalese tax System

Since it has accused that the Nepalese tax system has many problems. To know whether the tax system of Nepal is effective or not a question was asked "Do you think the present tax system of Nepal is effective?" The responses received from the respondents are tabulated as follows:

Table 4.7

Attitude towards Effectiveness of Present Nepalese Tax System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	1	17	5	73	6	100
B	1	25	3	75	4	100
C	3	75	1	25	4	100
D	1	100	-	-	1	100
Total	6	40%	9	60%	15	100

Source : Opinion Survey.

From the above table, it is clear that majority, that is 60 percent of the respondents felt that present Nepalese tax system is ineffective only 40 percent felt that it is effective.

60 percent of the respondents expressed their views that the present tax system is unfavorable. Thus, they are unsatisfied with present tax system. Only 40 percent of the respondents are satisfied with present tax system. 83% of from group A, 75% from group B and 25% from group C felt that present tax system are ineffective.

2. Attitude towards Goal of Tax in Nepal

To know the attitude goal of tax in Nepal, a question was asked, "What should be goal of tax in Nepal?" The responses received are shows as below:

Table 4.8
Goal of the Tax in Nepal

S.N.	Goal	Group				Total Point	Rank
		A	B	C	D		
1	Increase Revenue of Government	10	8	7	2	27	I
2	Reduce Gap between poor and Rich	13	11	11	3	38	II
3	Promote Private Sector Investment	15	13	12	4	44	III
4	Reduce in Unemployment	22	20	13	1	56	IV
	Total	60	52	43	10	165	

Source : Opinion Survey

In accordance to the preference of the respondents, the goal of tax in ranked as follow:

- I. Increase revenue of government
- II. Reduce gap between poor and rich
- III. Promote private sector investment

IV. Reduce in unemployment

It can be concluded from the above table in the opinion of respondents that increase revenue of government should be fore most goal of tax in Nepal, beyond these others are reduce gap between poor and rich, promote private sector investment and reduce in unemployment.

3. Attitude towards effectiveness of Tax administration

To know the attitude of respondents towards efficiency of tax administration, a question was asked, "Do you think that tax administration in Nepal is effective?" The responses received from the various respondents are tabulated as below:

Table 4.9

Attitude towards efficiency of Tax Administration

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	3	50	3	50	6	100
B	-	-	4	100	4	100
C	1	25	3	75	4	100
D	1	100	-	-	1	100
Total	5	33	10	67	15	100

Source : Opinion Survey

It is cleared from above table that majority of the respondents are dissatisfy with the present efficiency of tax administration. On the other hand only 33% are in favor of tax administration of Nepal. 67% of the respondents are against the present efficiency of the tax administration, they felt that present tax

administration in inefficiency. 50% from group A , 100% from group B, 75% from group C felt that present tax administration are ineffective.

Table 4.10
Attitude towards present tax rate

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	3	50	3	50	6	100
B	-	-	4	100	4	100
C	1	25	3	75	4	100
D	1	100	-	-	1	100
Total	5	33	10	67	15	100

Source: Opinion Survey

From the above table, it is clear that the majority of respondents are dissatisfied with present tax rate 67% of respondents are unfavorable of present tax rate. Only 5 respondents carrying 33% are satisfied with present tax rate. +50% from group A, 100% from group B. 75% from group C are dissatisfied with present tax rate.

5. Attitude towards the problems that Hinder the Tax Structure of Nepal

In order to know the most important problem that hinders the tax structure of Nepal, respondents were requested to rank their responses on given choices. The responses received from respondents are ranked as below in the table:

Table 4.11
Problems that Hinder the Tax Structure of Nepal

S.N.	Goal	Group				Total Point	Rank
		A	B	C	D		
1	Mass poverty	38	46	33	3	120	4
2	Lack of tax consciousness	74	48	34	7	163	8
3	Complicated tax laws	41	20	18	6	85	1
4	Administrative deficiency	41	23	24	2	90	2
5	Increasing corruption	31	37	28	11	107	3
6	Inefficient personnel	99	45	39	4	187	13
7	Leakage of collection	87	53	25	14	179	11
8	Inappropriate rate	60	68	36	10	174	10
9	Tax evasion	66	72	33	13	184	12
7	Assessment difficulties	46	56	34	1	137	5
8	Illegal business activities	43	74	45	9	171	9
9	Narrow tax coverage	27	83	37	8	155	7
10	inadequate govt. Policy	51	58	39	5	153	6
11	Inefficient tax management	83	49	46	12	190	14
	Total	787	732	471	105	2095	

Source : Opinion Survey

From the above table the major problems that hinder the tax structure of Nepal were ranked in order of performance of the respondents as follows:

- a. Complicated tax laws
- b. Administrative deficiency
- c. Increasing corruption
- d. Mass poverty
- e. Assessment difficulty
- f. Inadequate government policy
- g. Narrow tax coverage
- h. Lack of tax consciousness

- i. Illegal business activities
- j. Inappropriate rate
- k. Leakage of collection
- l. Tax evasion
- m. Inefficient personal
- n. Inefficient tax management

According to opinion survey complicated tax laws secured top most problem that hindered tax structure of Nepal. Respondents from different group ranked it first problem which carrying total 85 points. Respondent from different group felt inefficient tax management are the least problem that hindered the tax structure of Nepal. They felt that inefficient tax management in not so serious problem as other, so they ranked in at last. They provide 190 point. Respondents felt that present tax management less affected to the tax structure.

From the above, the conclusion is drawn in such a way that complicate tax laws, administrative deficiency, increasing corruption, mass poverty are the main problems that hinder the tax structure of Nepal.

6. Attitude towards the Effect of Present Income Tax Policy on their Profit.

To know the attitude of respondents, a question was asked, "To what extent the profit of four organization is affected by present income tax Policy" The response received from the various respondents are tabulated as below:

Table 4.12

Attitude towards the Effect of present Income Tax Policy on their Profit

Respondents	High		Neutral		Low		Total	
	No.	%	No.	%	No.	%	No.	%
A	3	50	2	33	1	17	6	100
B	1	25	3	75	-	-	4	100
C	2	50	2	50	-	-	4	100
D	-	-	1	100	-	-	1	100
Total	6	40	8	53	1	7	15	100

Source : Opinion Survey

From the above table, it is cleared majority of respondent i.e. 53% felt the present income tax police effected naturally on their profit, 40% felt that highly. 50% of respondents from group A felt that present income tax policy affected highly whereas only 25% of respondents from B felt so that, 33% from group A 75% group B, 50% from group C and 100% from group D felt that it affected neutral on thier profit.

7. Attitudes towards the facilities and Concessions Provided under Industrial Enterprise Act?

Industrial enterprises act 2049 provided tha many facilities and concession to industries, in oredor to know their attitude, question was asked and the respeonses received from the various respondents are tabulated as below.

Table 4.13

Attitudes towards the facilities and Concessions Provided under Industrial Enterprise Act

Respondents	Good		Satisfactory		Inadequate		Total	
	No.	%	No.	%	No.	%	No.	%
A	-	-	4	67	2	33	6	100
B	1	25	2	60	1	25	4	100
C	-	-	2	50	2	50	4	100
D	-	-	1	100	-	-	1	100
Total	1	7	9	60	5	33	15	100

Source : Opinion Survey

From the above table, it is clear that the 60% is clear the 60% of respondents are satisfy with present facilities and concessions whereas 33% felt that present facilities are in adequate hence should be increase.

6.7% of group A, 50% of group B, 50% of group C and 100% of group D were satisfied with present facilities concessions provided under industrial enterprise Act.

8. Attitude towards facing Complication in Paying Income Tax.

Table 4.14

Attitude towards facing Complication in Paying Income Tax

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	4	67	2	33	6	100
B	3	75	1	25	4	100
C	2	50	2	50	4	100
D	1	100	-	-	1	100
Total	1	7	9	60	15	100

Source : Opinion Survey

]From the above table, it is cleared that 67% of respondent face complication in paying income tax whereas, 33% of respondents do not face complication.

To know the caused of facing complication, a question was attached with this. If yes please rank the following reason according to your priority. In order to know the reason, the respondents were provided three reasons and were requested to rank them. The break down of the responses is shown below.

Table 4.15

Major reason of facing complication in paying Income Tax.

S.N.	Major Resson	Groups				Total	Rank
		A	B	C	D		
1	Complex tax laws and procedure	6	7	9	1	23	II
2	Administrative inefficiency	8	5	5	2	20	I
3	Corruption	5	10	10	3	28	III
Total		19	22	24	6	71	

Source : Opinion Survey

Major reasons for facing complication in paying income tax from the above table according to the respondent's preference are as follow:

- a. Administrative inefficiency
- b. Complex tax laws and procedure
- c. Corruption

From the above reason, it can be Concluded that the main reason for facing complication in paying income tax as administrative inefficiency.

9. Attitude towards problem of Income Tax Management in Nepal.

Income Tax management has been balacne that it is not so efficient. In order to find out the main problems which income tax management has been facing, a question was asked, "What are the main problem of income tax management in Nepal?" The responds received from the respondents is ranked in the table as bellow:

Table 4.16
Problem of Income Tax Management

S.N.	Problem	Groups				Total Point	Rank
		A	B	C	D		
1	Legal	43	28	31	1	103	V
2	Less consiousness of tax payer	53	42	40	6	141	X
3	Lack of sufficient facility to be employee	58	43	44	12	157	XI
4	Lack of training facility to be employee	17	16	14	2	49	I
5	Increasing habit of tax avoidance	30	23	22	3	78	III
6	Lengthy process of tax assessment	25	15	12	5	57	II
7	Lack of indential	47	33	34	4	118	VIII

	accounting system						
8	Inadequate expert in tax management	44	30	33	7	114	VI
9	Lack of appropriate organization structure	50	36	38	11	135	IX
10	Misuse of power by tax administration	36	28	24	14	102	IV
11	Lack of sufficient incentive to the employee	48	37	36	13	134	VIII
Total		451	331	297	78	1157	

Source : Opinion Survey

From the above table, it is clear the income tax management has several problems. The major problems of income tax management are ranked below, according to respondents as:

- a. Lack of training facility to the employee.
- b. Lengthy process of tax assessment.
- c. Increasing habit of tax avoidance.
- d. Misuse of power by tax administration.
- e. Legal
- f. Inadequate expert in tax management.
- g. Lack of identical according system.
- h. Lack of sufficient incentive to the employee.
- i. Lack of appropriate organization structure.
- j. Less consciousness of tax payer.
- k. Lack of sufficient power to the tax administration.

The main problem of income tax management ranked first by respondents of different groups is lack of training facility to the employee. It got 49 points from different groups. They place it

serious problem of income tax management. Through this opinion survey respondent felt that lacking of training facilities is the serious problem of income tax management. Respondent ranked last to the lack of sufficient power to the tax administration. They felt that tax administration have sufficient power. Lacking of sufficient power is not so serious problems so they ranked it as last.

10. Income Tax Related problem of Industries situated as nepalgunj Industry Estate.

To know the respondent view about income tax related problems, a question was asked, "What are the income tax related problems of your organization?" The respondents were provided several problems and were requested to rank them. The responses received are tabulated as below:

Table 4.17
Income tax Related Problem of Organization.

S.N.	Problems	Groups				Total Point	Rank
		A	B	C	D		
1	Defective tax administrative	35	42	35	5	117	VIII
2	Corruption	35	30	24	10	99	V
3	Unclear provision of present income tax act.	28	24	30	6	88	IV
4	Delay Procedure	27	22	20	4	73	II
5	Lack of systematic evaluation and control mechanism	35	30	31	9	105	VI
6	Unclear definition of Income	22	17	14	2	55	I

7	Discretionary power of tax administration	35	30	33	8	106	VII
8	Improperly implemented of tax act.	48	45	46	11	150	XIII
9	Frequent change in tax act.	30	24	27	1	82	III
10	Lack of good tax audit personnel	43	38	37	3	121	IX
11	Higher tax rate	48	44	41	12	145	XI
12	Tax submission procedure	42	41	40	7	130	X
13	Inadequate facility & concession	53	46	48	13	160	XII
Total		481	433	426	91	1431	

Source : Opinion Survey

Major income tax related problem of industries situated at Nepalgunj industrial estate from the above table according to the respondents' Preference are follow:

- a. Unclear definition of income.
- b. Delay procedure.
- c. Frequent change of present income tax act.
- d. Corruption.
- e. Lack of systematic evaluation and control mechanism.
- f. Discretionary power of tax administration.
- g. Defective tax administration.
- h. Lack of good tax audit persons.
- i. Tax submission procedure.
- j. Higher tax rate.
- k. Inadequate facility and benefit.
- l. Improperly implemented of tax act.

While surveying about their Income tax related problems, all the respondents from the different group felt that unclear definition of income is the serious and top most problem facing among different problem. They felt that present definition of income is vague and unclear. They gave to this problem total 55 point and place it first ranks. Respondents from different group felt that improperly implemented tax act is the last problem so they provided it total 160 points and placed it last rank.

11. Attitude towards the Improvement of tax administration in Nepal

As an important component of income tax management, it plays vital role in the income tax system. To know the view of respondent towards improvement of tax administration in Nepal, they are requested to rank given guideline to improve tax administration in Nepal according to their priority. The breakdown of the responses is shown below:

Table 4.18

Guidelines for the Improvement of tax administration in Nepal

S. N.	Guidelines	Groups				Total Point	Rank
		A	B	C	D		
1	Decentralization of authority	14	20	16	1	51	IV
2	Training and seminar to tax personnel	12	12	4	2	10	I
3	Effective personnel management	10	17	19	6	52	V
4	Effective outside pressure	27	21	23	7	78	VII

5	High penalties and fines to corrupted	14	17	15	4	50	III
6	Simple tax policy	11	8	13	3	62	VI
7	Motivating tax personnel	14	21	22	5	62	VI
Total		102	116	112	28	358	

Source: Opinion Survey

The guidelines noted for the improvement of tax administration of Nepal were ranked in order to preference of the respondents as follows:

- a. Training and seminar to tax personnel
- b. Simple tax policy
- c. High penalties and fines to corrupted
- d. decentralization of authority.
- e. Effective personnel management
- f. Motivating tax personnel
- g. Effective outside pressure

Improvement of the tax administration is essential for improvement of tax system. Respondents rank the first place to the training and seminar to the tax personnel. In Nepal training is essential for improvement of tax system. Respondents rank the first place to the training and seminar to the tax personnel. In Nepal training is essential to the tax officer. They felt that by providing training and seminar to the tax personnel, tax administration can be improved, they provide it 30 point and place it first rank. Respondents felt that effective outside pressure can not be improve the tax administration, so they ranked it last by providing total 78 points.

12. Suggestion for Reducing Income Tax Problems of Industries

As mention in (10) they are requested to rank given guideline/suggestion for reducing income tax problem according to their priority The responses received from respondents are tabulated as below.

Table 4.19
Suggestion for Reducing Income tax problems of Industries

S.N.	Suggestion	Group				Total	Rank
		A	B	C	D		
1	Effective tax administration	10	8	11	1	30	I
2	Discretionary power of tax administraction should be reduced	25	22	19	6	72	V
3	Clear cut provision should be made	19	15	13	5	52	II
4	Simplification of procedure	16	28	17	2	63	VI
5.	Better tax information system	17	27	13	3	60	III
6	Providing comprehensive training to tax officials	43	35	31	4	113	VII
7	Computerizing tax administration	59	37	31	10	137	X
8	Providing more benefits & faculties	45	41	39	7	132	IX
9	Providing incentive package to motive tax official	39	40	37	8	124	VIII
10	Reduction of corruption	35	32	29	9	105	VI
Total		308	285	240	55	888	

Source: Opinion Survey

The guidelines/suggestion ranked in order of preference of respondents are as follows:

- a. Efficient tax administration
- b. Clear cut provision should be made

- c. Better tax information
- d. Simplification and procedure
- e. Discretionary power and tax administration should be reduced
- f. Reduction of corruption
- g. Providing comprehensive training to tax official
- h. Providing incentive package to motive tax officials
- i. Provide more benefits and facilities to industries
- j. Computerizing the administrative

Effective tax administration is the top priority suggestion provided by all the respondents. They felt that if tax administration is efficient it will be more beneficiaries. They ranked it top first suggestion among all suggestions. They rovide 30 points which indicated the first rank among all suggestions. They felt that present tax administration is not efficient. Similarly to that, they felt that, computerizing the tax records is not so valuable suggestion for reducing their income tax problem, so they ranked it last by providing highest 137 points.

13. Attitude toward Present Tax Assessed System

Table 4.20 Attitude toward present Tax Assessed System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	3	50	3	50	6	100
B	1	25	3	75	4	100
C	1	25	3	75	4	100
D	1	100	-	-	1	100
Total	6	60	9	40	15	100

Source: Opinion Survey

It can be concluded from the table 5.23 that 60% of respondents are unsatisfied with present tax assessment system they need some improvement or modification in such system, Whereas 40% of respondents are satisfied with present tax assessment system. 50% from group A, 75% from group B and C respondents respectively were unsatisfied with present tax assessment system.

14. Attitude toward present rate of penalties and Fines

In every tax system there are provisions of penalties and fines. So that people can not run away from it and respect the law. Income tax system of Nepal also has the provisions of penalties and fines for the regulation of law.

To find the attitude of respondents toward the present rate of penalties and fines a question was asked, "Is the present rate of penalties and fines for the regulation of law.

To find the attitude of respondents toward the present rate of penalties and fines a question was asked, "Is the present rate of penalties and fines imposed to the tax payers is very high ?" The responses received from the respondents are tabulated as below.

Table 4.21
Attitude toward present Rate of Penalties and fines

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	6	100	-	-	6	100
B	4	100	-	-	4	100
C	4	100	-	-	4	100
D	1	100	-	-	1	100
Total	15	60	-	-	15	100

Source: Opinion Survey

It is clear from the above table that all the respondents (100%) felt that present rate of penalties and fines imposed to the tax payers is very high. Nobody is in favour of present rate. All they demanded to reduce the present rate of penalties and fines. 100% from all group felt that present rate of penalties of fines are too much high.

15. Attitude toward present tax policy

To know the attitude toward present tax policy, a question was asked, "Do you agree with present tax policy?". The responses received from various respondents are tabulated as below:

Table 4.22

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	3	50	3	50	6	100
B	1	25	3	75	4	100
C	1	25	3	75	4	100
D	1	100	3	-	1	100
Total	6	40	-	60	15	100

Source: Opinion Survey

It is clear from the above table 5.29 that 60% of respondents disagreed with present tax policy. Only 40% of respondents agreed with present tax. 60% respondents disagreed with present tax policy, and only 40 percent of respondents were satisfied with present tax policy. 50% of the respondents from group A, 25% respondent from group B, 25% respondents from group C and 100% respondents from group D felt that present tax policy is good and satisfactory.

Chapter-5

FINDINGS CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Taxation is effective tool with which the government can mobilize internal source for economic development. On the other hand, economic development is possible only if industrialization takes place . In fact, industrialization is an important factor for achieving the basic objectives of the countries economy and social progress. Taxation provides the means for economic development and industrialization.

Tax is the main source of government revenue that is used for meeting regular and development expenditure. However, the collection of tax depends directly and indirectly upon the development of industrial sector.

Tax revenue can be classified as direct and indirect tax. Income tax is the main source of direct tax. Custom duty, VAT and excise duty form the main part of indirect tax. All these taxes are regulated by custom act 2019. VAT Act 2052, income tax Act 2058 and excise tax 2058 respectively.

A large part of the tax revenue is generated from industrial sector. Consideration must be given that tax is not levied in such a way that it increases in conducive environment for industrial growth.

In order to safeguard the industrial sector for excessive tax burden, industrial enterprise Act 2049 has been formulated and in practice.

5.2 Findings

On the basis of previous chapter, data presentation and analysis some important and major finding can be drawn. The major finding of this dissertation are summarize as follows:

-) Government revenue of Nepal is the composition of tax and non tax revenue. There is domination share of tax revenue in Nepalese govt. revenue. It has contributed 78.26 percent in 1987/88 on total revenue but it inc. to 81% in 2006/07.
-) The tax/GDP ratio of Nepal is in increasing trend. It was 7.86 percent in 1987/88 which rise to 10.60 percent in 2006/ 07.
-) Nepalese tax revenue is the composite of Direct and indirect tax revenue.

There is domination role of indirect tax revenue in Nepalese tax revenue structure. The contribution of direct and indirect tax on the tax revenue were 27 percent and 73 percent respectively in fiscal year 1999/2000 which changed to 26.69% and 73.31% in fiscal year 2006/07.

The share of direct tax in total revenue is in decreasing trend whereas share of indirect tax in total revenue is in fluctuated trend from 73 percent to 73.31 percent from the fiscal year 1999/2000 to fiscal year 2006/07.

Income tax revenue is playing a significant role in direct tax revenue because the share of income tax in direct tax revenue is increasing rapidly.

➤ present Nepalese tax system are ineffective due to following reasons

) Ineffective tax administration

) Wrong assessment procedure

➤ The goal of tax in Nepal should be:

) Increase revenue of government

) Reduce gap between poor and rich

) Promote private sector investment

) Reduce in unemployment

➤ Tax administration in Nepal is ineffective

➤ Unsatisfied with present tax rate

➤ Complicate tax law, administrative deficiency, increasing corruption mass poverty are the major problem that hinders the tax structure of Nepal.

➤ Neutral effective of present income tax policy on industry profit

➤ VAT does not create complication in main training proper book keeping system.

➤ Industries are satisfy with the facilities and concession provided under industrial enterprise act.

➤ Tax officers have wide spread discretionary power in Nepal.

➤ There are defect in formulation of tax policies.

➤ Industries are facing complication in paying income tax due to

) Administration inefficient

) Complex tax laws and procedure

) Corruption

➤ The major problems of tax management in Nepal are

-) Lack of training facilities to employee
-) Lengthy process of tax assessment
-) Increasing habit of tax avoidance
-) Misuse of power by tax administration

The major income tax related problem of industries situated at Nepalgunj industrial estate are as follows

-) Unclear definition of income
-) Delay procedure
-) Frequent change in tax Act
-) Unclear provision of present income Tax Act
-) Corruption

- Industries are satisfied with present tax policy but unsatisfied with their proper implementation.
- The current income tax management is not effective but just satisfactory. It indicates that there should be some efforts toward increment of efficiency in income tax management.
- Training and seminar to tax personnel, simple tax policy, high penalties and fine to corrupted, Decentralization of authority are the main suggestion/guidelines for the improvement of tax administration.
- Industries situated at Nepalgunj industrial estate suggested the following for reducing their income tax problems:
 -) Efficient tax Administration
 -) All the provisions of income Tax Act 2058 should be clearly explained.
 -) Better tax information system
 -) Simplification of procedure

) Discretionary power of tax administration should be reduced

- There should modification in present Tax Act
- There are tax planning system in all Industries
- Industries are unsatisfied with present tax assessment system
- Present rate of penalties and fines imposed to the tax payer is very high

5.3 Conclusions

Nepal is one of the least developed countries in the world and suffering from the socio-political and economic problems. Because of poor performance of internal resources collection and mobilization the dependency in foreign loans and grants is increasing. Lack of sufficient financial resources is the major constraint of economic development in developing country like Nepal. These countries requires a lot of money to meet the additional financial requirements for their growing development activities. Nepal has been facing the problems of capital shortage to accelerate the pace of economic growth. The expenditure of Nepalese government are increasing year by year due to expanding development as well as regular functions.

After restoration of democracy, particularly from point of conflict there has been a dramatic change in the composition of public expenditure.

The public expenditure pattern has shown in early 1980s regular expenditure and the development expenditure. But the regular

expenditure increased rapidly and exceeded the development expenditure during 1989/90.

Public revenue, main source to fulfill the need of public expenditure has not been able to pace with public expenditure. Public revenue is of two types i.e. tax revenue and non-tax revenue. Tax revenue contributed 73.31% of the total revenue while the non-tax revenue represent about 26.69% present of total revenue.

To increase the revenue through non tax revenue is very tough job due rigidly characteristics. So it is necessary to make every effort to generate mox revenue through taxes which are levied on commodities incomes and properties.

Income tax is one of the most important resources of the government of revenue. Contribution of income tax for the economics development of Nepal has been increasing significant in recent year.

Present income tax management is done through the income tax act 2058, in which the Nepalese tax administration has been attempting to modify itself to make the pressing challenges brought out by change in technology and economic policies.

Income Tax Act 2058 is blamed that the law is complicated and Vague. These need the effort for simplification of the laws. If the law fails to be par with the international tax norms, it will not be able to attract the foreign investments. The tax law should be coherence with the economic situation of the country. The tax policy needs a clear cut and long term vision.

Industries are facing serious income tax related problems like unclear definition of income, delay procedure, frequent change in tax act, computation, defective tax administration and so on. They are unsatisfied with present tax policies and system. They need some reform/modification in tax act, present income tax act 2058 fail to achieve its objective.

Present tax administration is ineffective hence they provide some suggestions/guidelines to improve the tax administration like training and seminar to tax personal, simple tax policy, etc.

Industries are dissatisfied with proper implementation of tax policy. Tax system is good but government failed to its proper implementation.

Present income tax policy neutrally affects the profit of industries and satisfy with the present facilities and concession provided under Industrial Enterprises Act. They though that tax officers have wide spread discretionary power in Nepal. All industries felt that there are defective in formulation of tax policies.

They need special tax policy for industries, efficient tax administration, making of clear cut provisions, better tax information system, simplification of procedure and so on are the main suggestions provided by the industries for reducing their income tax related problems.

There should be settlement of different disputes between industries, should not be different between company audit and

tax audit, different rate for different industry and reduce tax rate.

5.4 Recommendations

Without effective tax administration tax policy does not work. So, time to time measurement of tax administration and its reform is must.

To increase efficient of tax administration retune of tax administration is needed on all fronts such as the organization structure, the incentive package, tax procedure and appeal system.

Industries are facing income tax related problems, on the basis of findings of the dissertation the following recommendation are made.

They are as follows:

- There should be a policy to develop the efficient fair and equitable tax administration.
- The terms and procedures under the income tax act should be simplified.
- Timely revision should be made in the matter of income tax policy.
- Government should make a policy to improve the present income tax system.
- Present tax rate should be reviewed and should make new tax rate.

- Government should bring the policy to simplified the tax laws, increase the efficient of tax administration and simplified assessment procedure.
- Due to lock, strike and the uncontrollable situation occurred in past day in Nepal industries bared huge losses so government should provide tax exempt to that industries.
- Government should prepare special tax policy for manufacturing company.
- Focus should be given for proper implementation of present tax policy.
- Tax audit is very important for the success of self assessment system. Thus good knowledge of accounting and auditing is must for tax personnel.
- Sufficient incentive to the employee should be given.
- Training must institutionalized. Tax personal should be given comprehensive training on various aspects of taxation in a parse wise manner.
- There should be co-ordination between the tax act and other acts so that misunderstanding cannot be arise.
- A regular information program should be launched to explain tax laws tax program tax benefit.
- Income tax should be liberal with broad base.
- provisions of simplified forms and formats should be made.
- Effective regular and punishment system should be established.
- Tax authority should do continuous effective in order to develop the positive attitude of industries towards taxation.
- Special tax policy should be made for sick industries.

- New company means new employment new goods and service and thus new tax payer so government should made special provision of tax facilities and exemption to new companies.
- Industries are facing complication in paying income tax due to different reason, so there should be a policy to develop the administrative efficiently, simplified tax laws and procedure and reduction of corruption.
- Present definition of income is vague so there should be clear definition of income what should be included or excluded?
- Last but not the least, emphasis should be given on the full implementation of the policies already introduction rather than introducing the new ones.
- Government should make policy to stop delay procedure.
- There should not be the frequent change in tax act.
- Clear cut provision should be made.
- Discretionary power of tax administration should be reduce.
- Government should modify the present tax act with its accordance.
- Disputes among the industries should be settled fast. Special laws should be created for disputes settlement among the industries.
- Government should respect to large tax payer industries.
- Government should form a special committee to carry out the serious problems and made suggestions to these problems of industries.
- Appeal procedure should be made simplified.

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Income Tax problems of manufacturing companies situated at Nepalgunj Industrial Estate.

Questionnaire

Name of the Respondents (industry).....

Dear sir/madam,

I could be most obliged if you could answer the questions given below.

Please either tick or put in the descending order of preference as indicated with in the bracket.

1. Do you think the present Tax system of Nepal is effective.(Please tick at the appropriate reason)

If yes what would be the reasons If no what would be the reasons

1. Fair tax rate & exemption limit. () 1. unappropriat tax and exemption limit ()

2. Appropriate assessment procedure.() 2. wrong Assessment Procefure ()

3. Effective tax Administration. () 3. ineffective tax Adm. ()

4. Other (Please specify) 4. Other (Please specify)

.....

.....

2 What should be goal of tax Nepal ?

(Please rank in order of importance from 1-5) 1= Least Important

a) Increase revenue of govt. ()

b) Reduce the gap between poor and rich ()

c) Oromote private sector investment ()

d) Reduce in unemployment ()

e) All of the above ()

3. Do you think tax Administration in Nepal is effective ?

Yes No I don't know

4. Do you agree with the present tax rate ?

Yes No I don't know

5. Among the below mentioned causes which you think is the pervasive nature of problem that hinder the tax structure of Nepal.

Please rank from 1 to 15 scales)

- a) Mass poverty
- b) Lack of tax consciousness
- c) Complicated tax laws
- d) Administrative deficiency
- e) Increasing corruption
- f) Inefficient Personnel
- g) Leakage of collection
- h) Inappropriate rate
- i) Tax Evasion
- j) Assessment difficulties
- k) Illegal business activities
- l) Narrow tax coverage
- m) Inadequate govt. policy
- n) Inefficient tax management
- o) Others.....

6) To what extent the profit of your org. is affected by present income tax policy

high() Neutral() Low()

7) Do you think VAT is creating complication in maintaining proper book keeping system ?

yes() No()

8) Do you find problems in claiming tax refund in Vat ?

Yes() No()

9) What do you think about the facilities and concessions provided under industrial enterprise Act?

Good() Satisfactory() Inadequate()

10) Do you think Exemption limit should be provide to businessmen?

Yes() No()

11) Do you think tax officers have wide spread discretionary powers in Nepal?

Yes() No()

If yes, give reasons (answer on 1 to 3 scales)

- 1) Introduction of several tax meason on an adhoc. ()
- 2) formulation of tax policies without considering other policies. ()
- 3) Interference of political power in the formulation of taxation policier. ()

13) Did you face complications in paying income tax?

yes() No()

if yes, please point out the reason.

- 1) Complex tax laws and procedure ()

- 2) Administrative inefficiency ()
- 3) Corruption ()
- 4) Others (please specify).....

14) What are the major problems of tax mgmt. in Nepal?

(Rank your answer from 1 to 11) 1 = major problem and 11= least problem

- a. Legal ()
- b. Less consciousness of tax payer ()
- c. Lack of sufficient power to the Employee ()
- d. Lack of training facility to the Employee ()
- e. Lack of sufficient incentive to the employee ()
- f. Increasing habit of tax Avoidance ()
- g. Lengthy process of tax Assessment ()
- h. Lack of identical accounting system ()
- i. Inadequate Expert in tax mgmt. ()
- j. Lack of appropriate org. structure. ()
- k. Misuse of power by the tax Adm. ()
- l. Any other. (if.....)

15) What are the income tax related problems of your organization?

(Please rank from 1 to 14) 1= main problem and 14= least problem

1. Defective tax Administration
2. Corruption
3. Unclear provision of present income tax Act
4. Delay procedure
5. Lack of systematic Evaluation and control mechanism
6. Unclear definition of income
7. Discretionary power of tax Administration
8. Improperly implemented of tax Act
9. Frequent change in Tax Act
10. Lack of good tax Audit personal
11. Higher tax rate
12. Tax submission procedures
13. Inadequate facility and benefit
14. If any.....

16) Do you agree with present tax policy.

yes()

No()

Idon't know ()

17) For the improvement of tax Administration what suggestion would you like to give? (Rank you answer from 1-7) =main suggestion 7 =least suggestion

a) Decentralization of Authority

- b) Training and seminar to tax personnel ()
- c) Effective personal mgmt. ()
- d) Effective outside pressure. ()
- e) High penalties and fines to corrupted ()
- f) Simple tax policy ()
- g) Motivation tax personnel. ()
- h) Any other(if).....

18) What should be the tax policy in your view.....

19) What would be your suggestion for reducing income tax problems. (Rank your answer 1 to 10) 1 = Main suggestion
10= least suggestion

- a) Efficient tax administration ()
- b) Discretionary power of tax Administration should be reduced ()
- c) Clear cut provision should be made ()
- d) Simplification of procedure ()
- e) Better tax information system ()
- f) Providing Comprehensive training to tax officials ()

- g) Providing incentive package to motivate tax officials
()
- h) Computerizing tax Administration
()
- i) Provide more benefits and facilities to industries
()
- j) Reduction of corruption
()

20) Do you want any modification in present tax Act.

- ()Yes ()No () I don't know

21) Do you want to give any suggestion/ Recommendation to tax Dept/ Authority.

- () Yes ()No

if yes, Please write

.....

22) Is there any system of tax- planning in your org?

- ()Yes () No

29) Do you want to get any benefit from govt. in related to tax.

- ()Yes () No

if yes, please mention.....

30) As your opinion, what should be best tax rate mfg. organization

a) 15%-20%() b)20%-25%() c)25%-30%()

31) Should the govt. prepared special tax policy of manufacturing company?

Yes No I don't know

32) Is govt. of Nepal successful in achieving the objective of income tax Act 2058?

Yes No I don't know

33) Are you satisfy with present Tax Assessed system?

Yes NO

34) Is the present rate of penalties and fine imposed to the tax payer is very high

Yes No I don't know