

CHAPTER I

INTRODUCTION

1.1 General Background

Before 1956, there was no modern industry in Nepal. The establishment of the Biratanagar Jute Mill in 1956 led the foundation of modern industry in Nepal. Despite of long experience of industrialization (about 50 years) industrial status is still very poor. Because of poor industrial status, Nepal's economy is very much weaker than any other industrial country. It is the major reason of the Nepalese dependency on foreign grants and loan.

It is necessary to develop industries to increase the economic status of the country. For the expansion of industries, conducive environment is necessary to attract the industries. Government needs to provide such environment. Various incentives and subsidies should be provided to the investors. Those incentives should encourage in the establishment of new industries and operation of existing industries. Among the various incentives, income tax incentive is also a major one to attract the investors.

Nepal has been practicing various tax incentives programs but still the industrialization process is very slow. The Income Tax Act (ITA) 2058 has provided various tax incentives and facilities to industries to attract the investment. However, the number of new industries are not enough to address the economic development.

Tax is one of the most important income source of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also regulates all the business organizations. To reduce the poverty of a country, it is very necessary to grow up the industries. There are various dimensions of tax system. Mainly there are two benefits if

tax collection system is effective and systematic. Thus, if tax collection system is effective, government can collect much more money and can use that amount in the developmental activities. On the other hand if the tax system is practical, people don't feel this as the financial burden imposed by the government to the public and in result tax evasion and tax avoidance reduces significantly. Country like Nepal, where the biggest part of the human resource are adopting agriculture based occupation, industrialization is fundamental need to develop the country, for this purpose tax system is also a factor and it should be practical and effective.

Although, tax planning helps to reduce the amount of tax and initiates to establish new industry to investor, it is not widely used tools. Especially in Nepal it is difficult to find tax planner industry. In one hand, it looks like most important tools to any business organization or industry, it has lots of scope and need but in other hand it is not in practically used. Thus , it can be said that tax incentives are the root cause of tax planning. If the tax incentives are highly initiative and encouraging, tax planning goes through widening. It means more tax incentives give people more attention and more consciousness to work on it. So, tax incentives and tax planning are highly correlated. Thus it can be said that more widening area of tax incentives leads to more widening adoption of tax planning. Although above statement is just an assumption till now sufficient study has not been done previously relating to the study about the effect of tax incentives on tax planning. Before understanding and considering tax planning, importance of tax incentives and its relationship with industrial development is to be understood. In absence of this concept studies are incomplete regarding the tax planning. Thus, it is necessary to study on the issue of tax incentives and its effect on tax planning.

1.2 Statement of the Problem

After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not seen to have reached at its target point as it has a small economy with limited resources and political instability. Such unfavorable feature helps to draw back the economic status of the country. Economic development is the prime concern of every nation of the world. To fulfill this objective, countries of the world are formulating plans but developing countries are facing serious problems in the process of economic development. Nepal is not an exception to this condition. The poverty line of the people (about 38% of the total population) and the per-capita GDP after adjusting the population growth is estimated to Rs. 20,527 (equivalent to US dollar 276) per person which shows the poor economic condition. It needs huge amount of investment in industry for economic development.

Income tax act 2058 and its related laws have mentioned various tax incentives and deduction facilities to industries while proper tax planning made, such as only 20% tax rate in compare to 25% in other trading business, tax rebates of 30%, 25%, 20% to the industries established in remote, undeveloped, and underdeveloped area. Tax deduction facilities in Pollution Control cost (PCC) and Research and Development (R&D). However, no organization can be found which has adopted tax planning. However, it has given more importance for the rural part of the country and more initiation to domestic industry, the provision is not being implemented. Tax planning is one of the most required tools for any business organization because it reduces the tax burden and provides sufficient opportunity to grow up the business. Tax planning encourages generating maximum employment which helps in mobilizing the human resource of the country till now, despite of various tax incentive provision, tax planning is not widely adopted tools.

Thus in this context following questions can be raised:

-) What is the effect of tax incentives on tax planning?
-) What types of tax incentives are further required to implement tax planning widely in the industrial sector?
-) What are the major problems of tax planning implementation in Nepal?
-) Do tax incentives and facilities play vital role in industrialization?
-) Are the incentives and facilities to industries provided by ITA sufficient?
-) What kind of tax incentives and facilities are necessary to industries?
-) What are the major problems of tax incentives provided by ITA to industries?

1.3 Objective of the Study

The main objective of this study is to get insight into the tax incentives provision allowed by the present tax system and find its effect on tax planning. Thus, the effectiveness of the tax incentive can be found out and the possible measure regarding tax planning can be suggested for further improvement.

So, the objectives of this study are as follows:

1. To examine and analyze the tax incentives provided by ITA 2058
2. To view the tax planning implementation in Nepal
3. To examine and analyze the effectiveness of tax incentives and facilities to industries

1.4 Scope of the Study

This study covers only the aspect of policy maker, professor and tax payer on the issue of tax incentives and its impact on tax planning of present tax environment. Its aim is to study the tax incentives and tax planning and their correlation in the context current industrial environment. Likewise, to find

out the impact of tax incentive in industrial development and analyze the difficulties to adopt tax planning system to the organizations which will ultimately affect to the economic development of the nation.

So, in brief the scope of this study can be presented as follows:

-) Role of tax incentives to industries
-) Role of tax planning to industries
-) Impact of tax incentives on tax planning
-) Guide to policy maker about tax incentives and tax planning
-) Industrial study in the view point of tax incentives and tax planning
-) Tax laws and procedures, income tax rate, exemption limit income tax act etc.

1.5 Research Methodology

Both the descriptive and analytical studies will be done in this research. Descriptive study presents the data, facts and opinion and analytical study analyzes those data, fact and opinion so as to derive in a conclusion. Both primary and secondary data will be used in this study. The primary data will be the opinion survey of the tax administrators, tax experts, and tax payers.

1.6 Limitations of the Study

The limitations of this study are as follows:

-) The study emphasizes only the industrial aspect of income tax.
-) Primary data have been collected from the tax experts, taxpayers only.
-) Time is the main constraint; therefore, few samples have been selected for opinion survey.
-) The respondents are from the Katmandu valley only.
-) The study is confined to Nepalese laws, acts, rules, ordinance, regulation and circular to income tax.

The above limitations, no doubt, have some impact on quality of the study, but such impact will not affect usefulness of the study in a significant manner. In fact, this study would provide a base for further study in the area of tax incentives and tax planning in the country.

1.7 Organization of the Study

This study is divided into the five chapters as follows:

Chapter I provides general background, statement of the problems, objectives of the study, scope of the study, need of the study, plan of the study and limitations of the study.

Chapter II is related to review of literature of different books, articles and dissertation.

Chapter III It is related to conceptual framework of the study.

Chapter IV the research methodology used in this study. It includes research design, weight of choice, respondents profile etc and is concerned with overview of legal provision regarding the tax planning and tax incentives under ITA 2058.

Chapter V is related with presentation and analysis of data i.e. empirical investigation.

Chapter VI is concerned with the summary, conclusion and recommendations.

CHAPTER II

REVIEW OF LITERATURE

In this chapter, an attempt is made to review some of the literatures tax planning in different manufacturing industries in Nepal . The chapter deals with the review relating to the topic “Evaluation of tax incentives in manufacturing industries in Nepal” Various books, journals and articles, some previous research work related to this topic have been reviewed. Since, the research topic was comparatively new and the research paper and the articles directly related to this topic were not easily found, many indirect topics were reviewed in the context of Tax planning and its practices in various manufacturing industries in Nepal on the basis of tax incentives. The study is carried out by dividing the chapter into different sections such as; review of books journals/articles, review of masters' thesis and related studies.

Indian Authors

In 1992, Mr. B.B. Lal, An Indian author, published his 14th revised addition in titled 'Direct Taxes' in which he has mainly focused with income tax, wealth tax, gift tax and tax planning. He has revised this book considering the Indian Tax Act 1991. In his book, he states that the admissible depreciation has been restricted to 75% in the case of corporate assesees, to promote tourism in remote regions; the rate of deduction was increased from 30% to 50% compared to previous. Tax rate was increased from 8% to 12% and domestic companies were liable to pay such charge @15%. For the purpose of preventing tax evasion, scope of tax deduction was enlarged. To promote social and economic welfare, expenditure in eligible projects approved by National Committee was allowed to be deducted in computing taxable profits of business or profession. Publishing industry had been given a boost by providing 20% deduction in computing total income. Interest on refund was 1% per month.

He has described about tax planning by spending one chapter. Introduction and meaning of tax planning, test of successful tax planning, methods of tax planning, tax management and scope of tax management are sub-topic in his book. Scope of tax management is fully based on Indian Direct Tax Laws Act 1991. He has categorized the scope of tax management in ten points. They are under the head of salaries, under the head of profits and gains of business or profession, under the head of house property, under the head of capital gains, deduction of tax at source, advance payment of tax, filing and return of income, review of unfavorable orders, documentation and maintenance of records and compliance with law. (Lal, 1992)

In 1995, Vinod K. Singhania published his fifteenth addition book entitled, "Direct Taxes". In this book he has given a typical approach to the study of direct taxes keeping in view the specific requirements of the candidates appearing in CA, CS, ICWA, M.Com., LLB and MBA examinations as well as those appearing income-tax department examination. The chief aim to the book is to enable the students to cut the time spent by them in preparing for the examination, while, at the same time, giving them most precise and up-to-date information on the subject of their study. Although concept of direct tax is analyzed thoroughly, in the case of tax planning only some hints are given where tax planning can be resorted too.

In 1996, Mr. Bhagawati Prasad has written a book in entitled 'Direct Tax Laws and Practice' which is his 30th addition. In this book he has focused in income tax, wealth tax, gift tax and tax planning/management. He states that he has given more stress in tax planning portion. He has tested each chapter with the aspect of the tax planning/management. In basic concept he states that while commencing business there is some scope in selecting the form of business organization. One has to analyze the income and the rate of tax applicable to insight the type of business form. In the chapter of Capital and Revenue, he adds any businessman should be aware whether he is incurring the expenses in the category of revenue or capital assets and only revenue nature

expenses can be claimed whether calculating the taxable income. In the chapter of Profit and Gains of Business or Profession, he has recommended the following discussing issues for a new business in respect of tax planning.

- 1) Location
- 2) Form of organization
- 3) Nature of business
- 4) Capital structure
- 5) Obtaining fixed assets
- 6) Setting up and commencement of business.

In the case of depreciation, he says that the knowledge of claiming depreciation at proper time at proper rate, tax liability could be reduced considerably. In capital gain, he has stressed that one should be careful while deciding to incurred the expenses in short-term capital and long-term capital because short term capital gains are taxed as any other income whereas long-term capital are treated concessionally. Like wise, income-tax on long -term capital gains can be saved if the amounts are invested etc. keeping in view the relevant provisions. In the head of carry forward and set of losses, he has emphasized that the provisions relating to set off and carry forward of losses are important particularly for those who are planning either to close down the losing business or who are interested in the scheme of amalgamations. In the respect of assessment procedure, he states that the tax executives in any organization will have to manage the tax affairs in a way that the assessment does not suffer any infirmity and the assessee is not subjected to penalty etc. for any fault and lapse. He recommends keeping in mind the following points:

- a) The return of income should be submitted on or before due date.
- b) It should be complete in all respect
- c) Advance tax and tax on self-assessment must be paid correctly to escape the rigors of penal interest.
- d) Proper form has to be used.

- e) In case of reassessment or ratification of mistake, care should be taken to see that the proceeding initiated by the Department is not time barred.

He has also presented the scope of tax planning related to the title appeals and revision, deduction of tax at source and refund of tax. Although this book is mainly concerned with direct taxes laws and practice, this has tried to present the scope of tax planning by different aspects. (Prasad, 1996)

Dissertation and Nepalese Authors

I. (Pandey; 1978)

In 1981, Miss Rojalin Singh Suwal has presented a dissertation entitled, "**Income Tax System in Nepal**". She has studied the In 1970, Mr. Surya Prasad Marahatta and Ananda Prasad Khatiwoda has published a book entitled, "**Fundamental of Nepalese Income Tax With up to date Financial Directives and Regulations**". This book has descriptive in nature not analytical. It has mentioned the legal provision of ITA 2020 but not focused on the industrial aspects. The prime objective of this book was to meet the requirement of the university students. Since, it has based on the syllabus of the university the applicability of this book has curtailed down with the enactment of new ITA. (Marahaththa; 1970)

In 1978, Dr. Govinda Ram Agrawal has presented a study entitled, "**Resource Mobilization for Development: The Reform of Income Tax in Nepal**". He has studied the resource mobilization through income tax. He has also described the fiscal policy, income tax and the legal provision, administrative aspects of income tax etc. He has calculated the elasticity and buoyancy of income tax. His major findings are related to the problems of income tax and those are inefficient tax administration, tax evasion, lack of integrated education (i.e. knowledge, assistance, guidance and counseling etc.) in the tax system. The tax offices are the major place of the corruptions and they have bad image in public. Inefficiency, delays, unfair dealings, harassment

are common in the tax system. Ambitious tax laws, poor coverage, poor enforcement and the lack in compliance of laws are the other problems of the income tax system. (Agrawal; 1978)

In 1978, Mr. Kedar Bilas Pandey has presented a dissertation entitled, "**An Analysis of Income Tax in Nepal**". His analysis has focused towards the contribution of income tax in the different revenue such as tax revenue, total revenue etc. His analysis has not covered the industrial aspects of income tax but he has recommended measures for increasing the revenue from income tax so as to mobilize more resources to increase the economic status rapidly. He has recommended scrapping the system of income tax holidays to industries trend of the income tax and its impact in production. Her finding is that the income tax is an important source of revenue to mobilize the resources for the planned development of this country. But she has not mentioned how the resources from income tax could be mobilized.

Her conclusion is that the income tax plays vital role in the equal distribution of income if it properly administered, but in Nepal proper administration is lacking. (Suwal; 1981)

In 1983, Mrs. Naina Nepal has presented a dissertation entitled, "**A Study of Problem and Prospects of Income Tax in Nepal**". She has pointed out the inefficiency of tax administration system of Nepal due to which the coverage of tax is limited. She has recommended increasing the number of taxpayers by widening the tax brackets so the additional resources could be utilized efficiently. (Nepal; 1983)

In 1984, Dr. Govinda Ram Agrawal has presented a report to Ministry of Finance entitled, "**Direct Tax Reforms in Nepal**". In his report, he has shown the maximum dependency of Nepal in foreign aid and loan. The increasing trend of foreign aid is not good symptom to this country. Growth rate of the direct tax has been slowed than the growth rate of total revenue and

total taxes. He has recommended to reduce the dependency upon foreign aid and to emphasize on proper tax administration. Self-assessment is the important measure to increase the tax collection. He has also recommended levying tax on capital gain. (ITA 2058 has levied tax in capital gain.) (Agrawal; 1984)

In 1985, Mr. Deepak Koirala has presented a dissertation entitled, "**Tax Incentives and Industrialization**". His study is based on empirical investigations. Separate questionnaires have been developed for both the industrialist and policy maker. The coverage of the questionnaire is limited. Only 5 questions are there in each group and 12 respondents has responded in each group. He has not done any secondary investigation.

He has not studied tax incentives under the income tax but has tried to find out the overall impact of the limited tax incentives to the industries on the basis of his empirical investigation.

His findings are that the tax incentives have important role in the process of industrialization of industry but the tax incentive alone is not sufficient enough to the industrialization process of this country. Various other incentives are complementary to the tax incentives. Effective combination of them would get the desire results.

His first question for both groups is about the advantage of the tax incentives to industries on which both the tax policy makers and the industrialist has given positive response but they have not strongly supported. His second question is related to the provision of tax exemption in the industrial policy. The entire respondents have positively responded to this provision. Next question is about the 3 years tax holiday to the industries, which establish in the backward areas of the country. His study has shown that the impact of the 3 years provision is not so much effective. Another question is about the effectiveness of the tax credit of 1 percent sales given to the

training expenses of the labour employed by the industries. His finding is that, it has not so affected the industries labour skill. Next question is about the effectiveness of tax incentives to attract the foreign capital in industrial sector of this country. The major respondents have responded it as fair. His last question is about the implementation side of the tax incentives to industries but the result is contradictory in the policy makers and the industrialists. Most of the tax policy makers have responded that the tax incentives are implemented well but the industrialists have responded it negatively.

He has tested the hypothesis whether the view of the industrialists and the policy makers is same or not. Most of the test have supported that the view of the both groups is same except in the question of implementation.

His finding is the tax incentive program is a good measure to promote the industries in the developing country like Nepal. But the incentives related to the diversification of the industries in the backward area of the country have nominal effect. Because there are other factors that could play vital role than the limited tax incentives. These factors may be the infrastructure facilities, availability of resources etc. He has found that the tax incentive measures are the good means to attract the foreign investment.

He has suggested the policy makers to know the view of the industrialists in respect of the 3 years extra holiday provision of the act and take a corrective action to attract them in the areas. But he has not recommended how they can be attracted to those areas. His view is that both the policy makers and the industrialists should go side by side to overcome this problem. He has mentioned that labours are not only the assets on industries but also the assets of this country so; they should be provided incentives for their training. To utilize the labour incentive, awareness in labour is necessary. So, labour awareness program should be provided that could pressurize the industrialists to utilize the tax credit facilities. Otherwise, they do not utilize the tax credit facilities because they think that skilled labour turnover heavily. He

has pointed out the need of the monitoring system to know the impact of the tax incentives to the industries, which could find out the causes of the inefficiency of the tax incentives to take the corrective actions required. (Koirala; 1985)

In 1986, Mr. Shambhu Nath Regmi has presented a dissertation entitled, "**The role of income tax in Nepal.**" In his report, he has described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problems of income tax etc. He has mentioned the objective of income tax as growth objective and stabilization objective. His study was concentrated in the study of tax structure of Nepal. In his study, he has found that the share of indirect tax was more than 70% of total tax revenue in 1981/82. The contribution of direct tax was about 30% of total tax revenue. Within direct tax, the share of income tax was 17.29% in 1972/73 and which increased to 35.68% in 1981/82.

His suggestions are; tax bracket should be widen and bring the various tax payers to the tax net, language of the tax act should be clear and precise, assessment procedure should be improved, procedure of tax payment should be simple and easy, staffs should be honest and efficient, coordination between staffs and department should be maintained, a research center should be established and the tax holiday should be provided to the newly established industries. He has not focused industrial sector but has suggested to given tax holiday to newly established industries. (Regmi; 1986)

In 1987, Mr. Chudamani Siwakoti has presented a dissertation entitled, "**Analytical study of income tax in Nepal**". He has described the role of income tax, income tax in Nepal's tax structure, human resource aspects of income tax department, legal aspects of ITA 2031, problems of income tax administration in Nepal. His identification is that the income tax has played major role in economic growth, equitable distribution of income and stabilization of economic growth. He has found out that the share of income tax

to total tax revenue was 1.9% in 1962/63 and 9.8% in 1985/86 and the contribution of income tax to the public revenue of Nepal was 1.5% in 1962/63 and 7.9% in 1985/86. He has also found out that the income tax departments have not well-trained and expert personnel. The personnel of the department have not got any opportunities of training and development. He has found out the problems of ITA 2031. According to him, the major problems were complicated language used in tax laws, high use of best judgement assessment method for the assessment of tax, lack of compulsion in maintaining the books of accounts, lack of compulsion of auditing of accounts of all type of business, assessment delays, ineffective use of fines and penalties etc.

His suggestions and recommendations are to make income tax act honest, efficient and effective, establishment of research unit, up to date information of existing and potential tax payers, reduction in time of assessment, use of scientific equipments in tax offices, training and counseling of the persons in the department. He has not given any suggestion to the industries. (Siwakoti; 1987)

In 1989, Miss Shanti Baral has presented a dissertation entitled, **"Income tax in tax structure of Nepal"**. She has reviewed the historical aspect of income tax system, structure of government revenue, contribution of income tax to total tax revenue and total revenue of Nepal, contribution of income tax in Gross Domestic Product, total revenue and total tax revenue. Her finding is that the contribution of income tax to total revenue of government is in increasing trend. It was 1.54% in 1962/63 and 7.78% in 1978/79 and the share of tax revenue to total revenue was 80.79% in 1962/63 and decreased to 78.89% in 1987/88. Individuals have highest contribution in the Nepalese income tax structure.

According to her, the major reasons of the tax evasion is lack of clear language of act and comprehensive definition of income, lack of punishment to tax evaders etc. The others reasons are low paying capacity of taxpayers and

lack of consciousness in the taxpayers. She has suggested making honest and efficient administration of income tax, punishment to the tax evaders, improving in collection methods, reducing the collection cost, establishment of research unit, avoid the corruption etc. Her study also has not focused the industrial aspects of ITA (Baral; 1989)

In 2050 B.S. Mr. Manidev Bhattarai has made a draft entitled, "**Income tax facilities provided by Industrial Enterprises Act 2049**". His opinion is that the facilities provided by the industrial enterprises act 2049 are not beneficial to the small industries. The deductions allowed to the modernization of industries such as pollution control devices, technology and product development, sales promotion expenses etc have protected the large industries only. The expenses such as advertisement, entertainment, hospitality etc have created rude in income tax, since, these facilities are given in the same manner to all kinds of industries. According to him, the industries are to be advertised highly where as others not. So, the equal treatment to industries as trading business is not favourable. The provision related to the tax exemption facilities to the reinvestment income of the industries was favorable to the industries related to alcohol, tobacco etc because they have reinvested their income and got the tax exemption facilities. (Bhattarai; 2050 B.S.)

In 1993, Mr. Nagendra Bahadur Pradhananga has written a book entitled, "**Income tax law and accounting**". Objective of this book was to providing the facilities to the students of taxation. In 20 chapters, he has described the legal provision relating to income tax. He has also included examples to derive the income tax payable from the various incomes sources, which is very much useful to the B. Com. students. He has also described the development of income tax in Nepal, Finance Act, Industrial Enterprises Act, income from remuneration, Agricultural income, income from house and land rent, income from industry, business, profession, vocation, income from other sources etc. The provision related to fines and penalties, appeal, admissible and

inadmissible expenses etc are also mentioned in this book. (Pradhananga; 1993)

In 1993, Mr. Santosh Raj Poudyal has written a book entitled, "**Income tax law and practice**". This book is also based on the syllabus of B.Com. level. He has described meaning and feature of income tax, direct tax, indirect tax, brief history of income tax in Nepal, types of taxpayers etc. He has also given some suitable examples to computation of income tax from the various income sources etc. He has also described the tax incentives and facilities given to industry by the industrial enterprises act 2049. This book is of descriptive in nature and not analytical one. The legal provision related to income tax authorities, power of tax officer, penalties and appeals, right and duties of taxpayers has also described in this book. (Poudyal; 1993)

In 1993, Mr. Ram Bahadur Thapa has presented a dissertation entitled, "**Income tax assessment procedure in Nepal, an analytical study**". Obviously, the title shows that he has focused in the assessment procedure of Nepalese income tax. According to his study, the major problems of income assessment procedure are undue delay in tax assessment, lack of adequate accounting skills, adhocism in tax assessment. His main suggestion is about the exemption limit. He has suggested increasing the exemption limit according to the inflation rate. He has suggested giving tax holiday to new industries as investment allowance. (Thapa; 1993)

In 1994, Mr. Hari Bahadur Bhandari has presented a dissertation entitled, "**Contribution of income tax to the economic development of Nepal (With reference to Kathmandu and Pokhara Valley)**". He has conducted an opinion survey of different aspect of income tax system. In his study, he has found out that the income tax is the major contributor of economic development of this country. He has suggested increasing the contribution of income tax to the economic growth of the country by levying the tax on capital

gain and in the agricultural income. The former suggestion has been applied in the ITA 2058.

He has also suggested giving the tax holiday in periodic basis to the newly established industries. His investigation has clarified that the repair and improvement facilities should be 10 percent of the book value. (Bhandari; 1994)

In 1993, Mr. Narendra Lal Kayastha has written an article in 'Rajaswa' entitled "**Problems and Prospects of Resource Mobilization Through Direct Taxation in Nepal**". He has shown the Nepalese taxation structure. The dependency of Nepalese Government revenue is high on indirect tax and non-tax revenue. He has pointed out the collection process suffers from leakages and loopholes. Which is also because of discretionary powers and authorities as well as low salary structure of government against high social obligation and high cost of living index.

He has showed the urgency of widening the tax base to increase in the government revenue. He has suggested improving the tax administration by using following measures:

- Train and develop the staffs of tax administration
- Collect the necessary information and keep well records.
- Audit the accounting records in time
- Monitor the industries and trade.
- Reform in tax rates, rules, regulation and budget.
- Widen the tax base. (Kayastha; 1993)

In 1994, Mr. Sanjaya Acharya has presented a dissertation entitled, "**Income tax in Nepal, a study of its structure, productivity and problem**". He has studied the structure of income tax, its productivity and problems. His major findings related to industries are: depreciation allowance of fifteen percent to the corporate taxpayers is very low, one and two percent of

deduction of the total income from trade, industry, profession and vocation for advertisement and guest hospitality respectively is seemed very low. (The limitation of the latter one has avoided in the new ITA 2058.) He has also found out the allowances related to specific industries provided by the act is not sufficient. The specific industries are Tourism industries, co-operative organizations etc. He has also suggested not giving special allowance for export industries related to carpet and garment industries because these businesses have only for high-class investors and the small investors could not invest in these industries. (Acharya; 1994)

In 1995, Mr. Daya Raj Tripathy has presented a dissertation entitled, "**Income tax system in Nepal and some potential areas for reforms**". He has studied the structure of government revenue of Nepal, its administration, evasion, tax assessment procedure and income tax facilities to industries and efficiency of income tax system. His major suggestion related to industries is to define the industries as employment oriented industries, which invest Rs 5,00,000 or more in the industries. He has further suggested making a prize system, which may be in the form of tax incentives or tax holidays to the taxpayer. According to him, the tax holiday should be extended for industries, which utilize Nepalese raw materials and produces handicraft. The period of tax holiday should be extended to 10, 8 and 5 years instead of the period of 7, 5 and 2 years respectively. He has also suggested adding incentives and deduction facilities to industries. His suggestions regarding the deduction of expenses to the remuneration incomes are to give exemption of Rs.10,000 per annum as children education allowance, house rent allowance of Rs. 12,000 per annum. His dissertation seems to be lightly focused in the industrial aspect of income tax act. (Tripathy; 1995)

In 1996, Mr. Parmeswar Pant has presented a dissertation entitled, "**A study on income tax management in Nepal**". He has studied the role of income tax in national economy and income tax management in Nepal. His dissertation is based on the empirical study. He has found out that the lack of

managerial efficiency is the major problem of income tax system. He has focused the managerial aspect of income tax management and suggested to increase the exemption limit. He has also suggested levying tax on agricultural income and capital income. (The new ITA 2058 has levied the income tax in capital gain.) He has not studied the incentives and facilities to industries. (Pant; 1996)

In 1997, Mr. Krishna Prasad Timalsina has presented a dissertation entitled, "**Tax structure of Bajhang district with reference to national tax structure of Nepal**". He has compared the tax structure of Bajhang district with the tax structure of national level. He has checked the relation of the district level tax structure with the national level, by correlation coefficient and has found positive relation. The tax revenue, non-tax revenue and total revenue all have positive correlation with the national level revenue. He has not studied the tax incentives and facilities to industries. (Timalsina; 1997)

In 1997, Mr. Raj Kumar Bhattarai has presented a dissertation entitled, "**Effectiveness of corporate income tax in Nepal**". He has described the history of income tax and corporate income tax, legal provisions relation to income tax, administration aspects of income tax, tax structure and government mechanism. He has conducted an empirical investigation taking 50 persons and companies as a sample. In his study, he has found that the share of tax revenue to the total tax revenue is 78% in average, the share of direct tax to the total tax revenue is 20% in average whereas the share of indirect tax to the total tax revenue is 80% in average, the share of income tax to the total direct tax is 67% in average. As substantial share of income tax in total direct tax revenue, there is strong contribution of corporate income tax in total tax revenue. There is average 48% share of corporate income in total income tax revenue.

He has found that the government policies, acts, rules, regulations concerned with the corporate income tax are not effective in increasing tax paying habit in Nepal. Major problem of the tax administration is corruption

and the corruption is due to the weaknesses of the acts, rules and regulations. (The corruption is still customary in Nepal.)

He has not studied about the tax incentives and facilities but a question is asked to know the opinion of the respondents about the income, expenses that should have been tax-free. The respondents have specified the incomes of foreign exchange, compensation income and grants etc. to be tax-free. (Almost all of them have been taxed under new income tax act 2058.) (Bhattarai; 1997)

In 1998, Mr. Karna Bir Poudyal has published a book entitled, "**Corporate tax planning**". He has described about the various tax incentives such as tax holiday, set off and carry forward of losses, depreciation allowance, amortization of preliminary expenses, export incentives, tax free interest and dividends, exemption of interest on unpaid income tax, incentives for listing in Nepal Stock Exchange.

He has found that the tax incentives in the form of tax concessions, exemptions and deductions have been an important feature of the Nepalese corporate tax system. These incentives have been introduced from time to time to promote economic growth by mobilizing savings and their investments according to planned priorities of HMG of Nepal.

He has also compared the tax incentives prior to and after the passing of industrial enterprises act 1992. His comparison shows that the industrial enterprises act 1992 has given more incentives to industries than prior act. (Poudyal; 1998)

In 1999, Mr. Narayan Raj Tiwari has written a book entitled, "**Income tax system in Nepal**". He has described income tax and its concept, its system in Nepal, taxable income, industrial enterprises act 2049, computation of income tax from various sources etc. Some examples to compute the income tax from the various sources of incomes have presented in this book. The legal

provisions of the income tax act 1974 have presented in detail. This book is of descriptive in nature and not the analytical one.

In 2001, Mr. Kamal Deep Dhakal has written a book entitled, "**Income tax and house and compound tax law and practice**". This book has based on the syllabus of the BBS and MBS level of T.U. Various provisions related to the income tax under income tax act 1974 has described in this book. The incentives given to industries by industrial enterprises act have also described in this book. Clear numerical examples have presented to derive the taxable income from the various sources of income. This book has also included the house and compound tax and value added tax.

In 2001, Mrs. Binita Shrestha has presented a dissertation entitled, "**Revenue collection from income tax in Nepal, problems and prospects**". Her study has been surrounded on the tax structure, tax administration and legal provision of the tax system. There was domination of income tax in the government revenue of Nepal. About 80.46% of the total revenue is contributed by the tax revenue in the government in 1984/85 and reduced to 77.19% in 1998/99. The contribution of tax in GDP is in increasing trend. It is 6.81% in the income year 1984/85 and 9.36% in the income year. The contribution of indirect tax is higher in the tax revenue of Nepal; it is about 82.24% in the income year 1984/85 and decreased to 73.86% in the income tax year 1998/99. Among the various taxpayers the contribution of individual taxpayers is the highest one. The major problems of income tax system are narrow coverage of tax, mass poverty of public, lack of consciousness in the taxpayers, evasion and avoidance, unscientific tax assessment procedure, inefficient administration, instability in government policy. She has suggested widening the tax coverage, making consciousness to tax payers, minimizing the problems and weaknesses of the tax system, reform the tax assessment procedure and tax administration procedure. Her study has not been related to the tax incentives and facilities.

In 2001, Dr. Puspa Kandel has published a book entitled, "**Corporate Taxation: Issues in Nepalese Perspective**". He has included a chapter "tax incentives" in his book and presented the introduction of tax incentives, history of tax incentives, rational of tax incentives, types of tax incentives, tax incentives in Nepal, effect of tax incentives on investment (with findings of empirical studies) etc. He has found out that the emergence of tax incentive system in most of the countries of the world is mainly responsible to the frustrating low rate of investment in developing countries. The developed countries like USA and UK introduced the tax incentives like investment allowance; investment tax credit and investment grant system to enhance their investment rate. Developing countries have one step ahead and introduced a full exemption system called tax holiday to accelerate their rate of investment and in turn in growth rate. According to him, the tax incentives system has distorted the tax base instead of improving the investment environment of the developing countries because the tax incentives to one industry compelled to levy higher tax to other industries.

There is debate between the taxpayers whether the depreciation should be based on historical basis or on the replacement basis so, some countries have given choice to among these. But almost all of them have accepted that accelerated depreciation is one of the major tax incentives. Most of the countries have also provided the loss adjustment facilities as tax incentives but the condition of the government is misery regarding the loss adjustment facilities. Since the loss adjustment periods of the most of the countries have only 3 or 4 years, the writer has concluded the governments' partnership with business houses was lopsided giving more benefit to the government. Nepal is also very conservative in this regard. Due to the discretionary power of tax officer to recognize losses, this facility is also only in paper. (Kandel; 2001)

In 2001, Mrs. Bibha Pradhan has presented a dissertation entitled, "**Contribution of income tax from public enterprises to public revenue of Nepal (with reference to Nepal Telecommunication Corporation)**". She has

found that the contribution of tax revenue in government revenue is 77% in the income year 1998/99 and the contribution of indirect tax revenue in total tax revenue is 74% in the income year 1998/99. The contribution of tax revenue in GDP is 2.37%, which is the lowest contribution in the SAARC countries except in Bangladesh. Share of Nepal Telecommunication Corporation (at present 'Nepal Telecom') in income tax is 11.1% in the income year. Her suggestions regarding income tax system are to reward the efficient and honest persons, to give education about income tax to the taxpayers and tax officers, to motivate the persons, to take strict action to the corrupted persons, to increase the public participation in tax matters, to reduce the time period of the tax assessment and to settlement of tax commission. She has not given any suggestion regarding the tax incentives and facilities of the Nepal Telecom. (Pradhan; 2001)

In 2002, a draft entitled, "**Using tax incentives to compete for foreign investment**" has written by Louise T Wells, Nancy J Allen, Jacques Morisset, Neda Pimia. This book is descriptive as well as analytical in nature. The writers have raised three issues relating to attraction of foreign direct investment. Among these the major issue is regarding the tax incentives competition in the developing countries to attract the FDI. The writers have pointed out that tax incentives have not so much effective in attracting foreign capital. But, developing countries have hardly abandoned them. In fact, the tax incentives are increasing rather than decreasing. (Wells; 2002)

In 2002, Mrs. Jayanti Paudel has presented a dissertation entitled, "**Income taxation in Nepal, a study of its structure and productivity**". Her study has focused the structure of income tax its elasticity and buoyancy, and role of income tax administration in Nepal. She has found that the contribution of income tax in the GDP is lowest in the SAARC countries, which has shown the poor condition of Nepalese income tax system. The share of indirect tax revenue in the tax revenue is more than the double of the direct tax revenue. She has blamed that income tax procedure of Nepal is based on the traditional

system and it should be modernized. She has furthered suggested to broaden the income tax base, reform the tax administration, and implement the VAT, establishment of the standardized accounting system. She also, has not studied the tax incentives and facilities to industries. (Poudel; 2002)

In 2002, Mr. Basanta Kumar Shingh has presented a dissertation entitled, "**A study on application of best judgement on income tax assessment with reference to income tax act 1974**". His study has totally focused the best judgement assessment procedure, its advantages and disadvantages, its problem and prospects, its use in income tax, the conditions required for the best judgement, legal remedies of best judgement assessment etc. His finding is that a committee assessed the major of the income tax. The role of best judgement assessment is in second position i.e. its contribution is 18.36% in 1997/98, which is increased to the 23.98% in the income year. According to him, the best method of the assessment is the best judgement assessment but that method is found rarely in Nepal. According to him, the Nepalese income tax administration system is very poor due to lack of trained persons, lack of scientific equipment, lack of coordination between the concerned departments, lack of adequate efficiency and knowledge in tax personnel, lack of motivation to employers, increased nepotism and favoritism in tax offices, lack of principles for the use of best judgement assessment. He has suggested to assess the income on the basis of accounts, to form a supervisory committee to review the tax assessment, to train the persons in the income tax administration, to make compulsion the submission of income tax statement, to reduce down the assessment time from one year to three months, to made compulsion the auditing of the accounts, to reward and punish the reasonable persons and strictly implement the income tax procedure. He has not studied the tax incentives and facilities. (Shingh; 2002)

In 2003, Mr. K.P. Aryal and Surya Paudel have written a book entitled, "**Taxation in Nepal**". This book has written for the academic syllabus of BBS level students. They has described legal provisions of the new ITA 2058, its features, the assessment procedure, computation of income tax, income heads and sources of incomes, taxable and nontaxable income, rights and duties of tax authorities and payers etc. This book has also included the house and compound tax as well as VAT. (Aryal; 2003)

In 2003, Dr. Chandra Mani Adhikari has written a book entitled, "**Modern taxation in Nepal**". This book is also based on the new ITA 2058 and based on the academic syllabus of T. U. The legal provisions related to income tax has described in this book with numerical examples to compute the taxable income and tax liability of various income sources. This book is of descriptive in nature and has not analyzed the provisions of the new income tax act. (Adhikari; 2003)

In 2003, Mr. Bidhyadhar Mallik has written a book entitled, "**Nepalko Adhunik Kar Pranali**". He has explained the various difficult languages of the ITA 2058 in simple language with suitable examples. The main objective of this book to make clear about the provisions of the new act to the taxpayers. This book is some how analytical in nature with the descriptions of the legal provisions of the income tax act 2058. He has clarified how the new income tax act has broadened its tax base and more amounts of incomes are brought into tax net. (Mallik; 2003)

In 2003, Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala have written a book entitled, "**Tax Laws and Planning**". This book is also designed in conformity to the MBS level students of T.U. In the same year another book entitled, "Taxation in Nepal" has been published by the same writers and this book has also covered the syllabus of BBS level. Both of the books are of descriptive in nature and presented various examples to derive the taxable

income and tax liability from the various sources. In the first book, some examples regarding how the tax can be planned under ITA 2058 has been presented.

In 2003, Dr. Puspa Raj Kandel has written a book entitled, "**Tax laws and tax planning**". This book's main objective is to meet in conformity with the MBS level syllabus of T.U. He has presented the numerical examples to derive the taxable income and tax liability. Another book entitled, "**Nepal Ko Bartaman Kar Byabastha**" by the same writer in the same year has been published. This book is based on the course of BBS level. (Kandel; 2003)

In 2003, Mr. Dan Bahadur Pallimagar has presented a dissertation entitled, "**Income tax in Nepal: A study of exemption and deductions**". His findings are that the deduction facilities provided by the ITA 2058 have myopic vision. The government is not liberal enough to give the sufficient deduction facilities which are important for the well-being of the nation such as pollution control cost, research and development cost, repair and improvement cost etc. and some cost like depreciation allowance are far from the realities. The loss adjustment procedure is not sufficient enough to attract the industries. He has further found that the incentives and facilities given to encourage the establishment of industries in certain areas are not effective. They have vanished or changed names, ownership or place of the business when the tax concession facility expired. In case of income tax administration his findings are that the problems regarding the tax administrations are lack of trained employees, shortage of income tax experts, lack of public participation, defective income tax, faulty organization etc.

His suggestions regarding the industries are that the incentives should have been increased because they are not sufficient to attract industries in the remote areas. The incentives may be in the form of investment allowance of 25% per annum on the depreciable asset on straight-line basis or accelerated depreciation and a special package for the remote areas should be introduced.

Research and development expenses should be wholly exempted because research is the backbone of industrial development. Interest of the tax-exempt control entity should be wholly allowed to deduct. (Pallimagar; 2003)

In 2004, Mr. Keshav Raj Gautam has presented a dissertation entitled, "**Contribution of income tax to national revenue of Nepal**". He has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. He has not studied the industrial aspect of the income tax.

His suggestions are that the objective of taxation should be growth, redistribution and stabilization of economy. So, the income tax policy should be properly formulated on the basis of critical analysis of existing situation. (Gautam; 2004)

In 2004, Mr. Dharma Raj Shayka has presented a dissertation entitled, "**A study on income tax act 2002**". He has studied the income tax act as a whole however; he has not studied the tax incentives and facilities to industry. His major findings are that the income tax is the suitable means of government revenue and its contribution is in third place, for economic development and it should have been mobilized. Income tax has composed by six types of taxes and the share of individuals is half of the total income tax revenue.

He has suggested to effective implementation of income tax act, to give tax education, to compulsion the auditing, to plugging the loopholes existed in the tax act, to provide incentives to the tax administrators, to allow the PCC cost wholly etc. (Shakya; 2004)

In 2004, Mr. Girija Prasad Koirala has presented a dissertation entitled, "**Contribution of employment income to income tax revenue of Nepal**". He has studied the contribution of the remuneration income in various revenue of Nepal. Both the primary and secondary data have been used in his study and

found that the contribution of employment sector is average of 0.90%, 1.15%, 4.93% and 6.28% in the total revenue, tax revenue, direct tax revenue and income tax revenue respectively in the 15 years period (from fiscal year 1987/88 to 2001/02) of his study. According to him, the contribution is satisfactory.

He has recommended increasing the direct tax revenue so as to direct the economy in the channel of development. His suggestions are that to mobilize the resources through direct tax. He has further recommended to increase the exemption level of couple and to adjust with the inflationary level of the economy. According to him, the revenue collection made internally is only sufficient to the daily administration expenses and not enough available to developmental activities. That is why; Nepal is dependent upon the foreign loans and grants. He has pointed out that the TDS system is very much effective. (Koirala; 2004)

In 2004, Mr. Jagdish Agrawal has published a book entitled, "**Income Tax; theory and practice**". This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on descriptive fact but also has interpreted the various provision of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets is an example. All terms are clearly defined with the sections under which the terms are included. (Agrawal; 2004)

In 2004, Mr. Durga Prasad Ghimire has presented a dissertation entitled, **"Income tax in Nepal: its structure and contribution from public enterprises to government revenue"**. His findings are that the contribution of income tax from PEs, semi PEs, private corporate bodies, individuals' tax, remunerations tax and interest to total income tax are 21.26%, 0.60%, 0.12%, 69.23%, 4.38% and 4.42% of income tax in 1982/83 respectively and each are 19.87%, nil, 15.86%, 49.63%, 9.38% and 5.25% of income tax in 2001/02 respectively.

His recommendations to public enterprises are; to better perform, to reduce the tax imposition, to audit the financial statements, to pay tax dues regularly, to maintain the cash flow favourable, to make income transparent etc. (Ghimire; 2004)

In 2005, Mr. Tanka Nidhi Dahal has presented a dissertation entitled, **"Income Tax Management in Nepal"**. His conclusion is that the realization of sincere and support of official involve and tax payers effect should remain always in higher priority in the tax administration. For the success of income tax system tax management needs to be reoriented towards effective implementation of new act, he suggests tax policy needs a clear cut and long term vision.

In 2005, Mr Rishi Ram Newpane presented a dissertation entitled, **"Income Tax as an Internal Source of Resource Mobilization in Nepal."** His research says that contribution of tax revenue is about 78% and non tax revenue 28% present in total revenue structure in Nepal during last 15 years. Direct tax has not been contributing to total tax revenue to the extent it would have to do. The share of income tax in the total direct tax has been found 77.78%. land revenue and redgestration fees, miscellaneous taxes occupie 16.43% and 4.79% of total direct tax respectively. He suggests individuals,

public, enterprise, private corporate bodies and salaried persons have been significantly contributions above 88% of total income tax revenue.

Nepalese Income Tax Acts

Tax Act 1960

In the sixth year of the reign of Late King Mahendra Bir Bikram Shah Dev to systematize the tax rates to be levied on business profit and salaries and to the collection of such taxes this Act had been introduced in 1960. The Act was used to make the provision regarding income tax. The Act 1960 has had been composed in twenty-two sections. The first section is about short title, area and commencement; second section about definition and last section is about authority to make regulations of HMG to regulate the tax act. According to the Act, tax payment should be made within 35 days once the office and the tax payment to be made is specified. Fine and punishments of Rs. 5000 to them those who do not pay tax and not submit account is mentioned in the Act. There is appeal system too; if any taxpayer is not satisfied with regard to the order of tax assessment receipt. Such taxpayer can appeal within the 35 days from the date of an order of tax assessment receipt. The tax officers as per the Act are liable to assess the tax liability of taxpayer, submission of written notice to taxpayer, etc. (Act, 1960).

Tax Act 1962

Since the Act 1960 has limited coverage in incomes the Act was replaced by the Act 1962. as per the Article 93 of the Constitution of Nepal the Act was introduced. The Act has all about 29 sections. As per section 6 of this Act annual statement of income to the concerned tax officer those having annual income of more than Rs. 6000. The statement should file within 35 days of completion of fiscal year. The salaries of diplomatic representatives of foreign country, salaries of foreign or non-Nepalese citizen working in the

service of HMG, dividend paid to shareholders, incomes of Nagar Panchayat, Village Panchayat, public organizations, educational institutes, Nepal Rastra Bank, allowances granted by HMG to Ministers, employees saving fund etc. were considered as tax free income by the Act. As per the Act $\frac{1}{4}$ income from agriculture was taxable income and remaining $\frac{3}{4}$ were considered as expenditure to earn such income. The Act was experienced for 13 years and was also considered inadequate with the changing situation of Nepalese economy (Act. 1962).

Tax Act 2002

The Act is quite advance income tax that has ever introduced on Nepal. The main feature of this act is all the tax related matters within one act. The Act is independent to levy income tax. **The Act has 24 chapters and 143** sections. According to the Act there are three different sources of incomes; (a) Business, (b) Employment, and (c) Investment. Tax rates for different income groups, tax rate as per individuals and entities, depreciation rates and depreciation methods for all the five categories of depreciable assets, provisions regarding international taxation, capital gain taxation, panel provision, appeal system etc. all the matters of income taxation can find within this Act (Act. 2002).

2. Research Gap

There is gap between this research and the previous research. Most of the previous researchs have focused the contribution of various income in the different government revenue, structure of the government revenue and the contribution of income tax from various sources, tax structure etc. They have found that the contribution of income tax in government revenue is significant and it should be mobilized to economic development of Nepal. Almost all of them have indicated that tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested improving the tax

administration, increasing the contribution of income tax in resource mobilization, and widening the tax coverage. But they have not study the industrial aspect of income tax.

Industries are the backbone of the economy and its growth play major role in the growth of the economy of Nepal. But, no one has studied the incentives and the facilities to industries provided by the ITA. So, the need of this research has been increased.

Therefore, to fulfill this gap, the researcher has conducted this unique research. Both primary and very few of secondary data have been used in this research. The tax incentives and facilities to industries provided by income tax have been studied in this research.

CHAPTER III

CONCEPTUAL FRAMEWORK

3.1 Tax

3.1.1 Meaning of Tax

Many tax experts have defined tax in their own words. They are presented in the following.

According to the definition given by the **Professor Seligman**, "Tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." (Dhakal, 2058:1-2)

According to the definition given by **Taylor**, "A tax is a compulsory payment to the government without expectation of direct benefit in return to the tax payer." (Amatya, 2060:1)

According to the definition given by **Plehn**, "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states." (Dhakal, 2058:2)

From the above mentioned definition we can conclude that any compulsory contribution made by public to the government without expectation of the corresponding benefit by the payer is tax.

Government could expend such amount in the regular expenditure such as its administration, peace and security etc. to establish the social moral as well as in the development expenditure in different projects to increase the economic status of the poor people of the nation. The person on whom the tax

is imposed but do not pay the tax are subject to the punishment under the legal provision.

3.1.2 Classification of Taxes

Economists have classified taxes into several categories. The major categories of taxes may be direct taxes, indirect taxes, progressive taxes, proportionate taxes, regressive taxes, digressive taxes, single taxes, multiple taxes etc.

However, taxes are broadly classified into Direct taxes and Indirect taxes.

3.1.2.1 Direct Tax

The direct tax on whom it legally imposed cannot be transferred to others i.e. in direct tax the person paying and bearing the tax is same.

Dr. Dalton has defined the direct tax as, "is really paid by the person on whom it is legally imposed." (Amatya, 2060:2)

Some of the examples of the direct taxes are: Income Tax, Property Tax, Gift Tax, Interest Tax, Vehicle Tax, Death Tax etc.

3.1.2.2 Indirect Tax

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. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumers. [Kandel 2003, P6]

3.1.3 Objectives of Taxation

The government mobilizes its revenues through budget in development programs, daily administration, peace and security and public interests. Thus, good tax policies are considered as tools of social and economic revolution.

Therefore, the government collects tax to achieve the following objectives.

-) **To raise more revenue:** The government needs revenues to perform development and welfare programs of the nation. The government imposes taxes to raise more revenues.
-) **To reduce economic inequalities:** The government levies more tax upon high-income group and mobilizes it to improve the economic conditions of low-income group. As a result, the economic inequalities will be reduced.
-) **To maintain the welfare state:** The government must perform different welfare programs, such as, education, health etc. and should maintain economic stability in the country. Thus, government collects taxes in order to perform such programs.
-) **To encourage production of essential goods:** Tax policy provides incentives and facilities to the industry producing the essential goods so as to encourage their production.
-) **To check the consumption of harmful goods:** Higher tax rate will be levied to the industries producing luxurious and harmful goods so as to check their consumption.
-) **To remove regional economic groupings:** The government provides tax exemptions, rebates and concession to those industries which are operated in the backward and remote regions. As a result, the economic activities will be increased in these regions so as to remove the regional economic disparity.

In addition to these objectives, others objectives are:

-) Rapid economic growth
-) Increasing saving and investment
-) Reduction in unemployment
-) Removal of regional disparities

In conclusion, it can be said that the establishment of peace and welfare economic state is the major objective of taxation

3.1.4 Canons or Principles of Taxation

A good tax system should have certain principles or canons. Different writers have their own opinion regarding the canons. Some major canons are presented here.

As Per Adam Smith:

-) **Canon of Equity:** This canon emphasizes paying the tax on the basis of ability to pay. Tax should be levied on equal ground to all the taxpayers having equal incomes.
-) **Canon of Certainty:** As per canon of certainty the time, method, manner and quantity of the tax should be specific.
-) **Canon of Convenience:** The time, place and manner of tax payment should be convenient and the language of tax laws should not be complex.
-) **Canon of Economy:** The cost of the collection of tax should not be higher. There should be minimum difference between the amount that people are ready to pay tax and the amount that actually goes to the state treasury.
-) **As per Bastable:**
-) **Canon of Productivity:** Every tax system should be revenue productive, which means it should be taxed in that income which provides

adequate revenue and the taxes that do not provide adequate revenue should be withdrawn.

) **Canon of Simplicity:** Every tax system should be simple to understand and applicable in public life. Complexity in tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance whereas complex tax system having lower tax rate may not be complied.

) **Canon of Flexibility:** Tax system should be flexible enough as per the requirement of the economy of the country. Higher the economy higher will be the revenue and vice versa. Similarly, higher the requirement of the revenue higher rate should be charged and tax rate should be minimum to the industries of necessity.

) **Canon of Diversity:** Tax system should not depend on limited income sources. It should cover wide range of income sources. This principle says that tax should be levied on various stages and various sources.

) **Canon of Neutrality:** Canon of neutrality says that the tax should not affect the economic sector of economy. Tax system should not only focus on collecting more revenue but also take care the effect in the economy.

) In addition to these canons the other canon can be:

) **Canon of Coordination:** In a democratic country central as well as local governments have right to raise revenue. Therefore, coordination between central and local level government is necessary.

3.1.5 Tax Incentives

Tax incentives to invest arise from the relaxation in normal taxation rules, which curtail the tax burden and thus increase the profitability of a particular investment activity. Tax incentives involve cost in the form of loss of

revenue to the government but at the same time it result in increase in corporate savings and investments. (Poudyal; 1998,26)

An income tax is a disincentive to save or invest and therefore, the incentive is to mitigate the disincentive. It may imply a partial or complete exemption from one or variety of taxes and special allowances for a certain periods to motivate the behaviour of saver or investor. The main aim of tax incentive is to increase savings and to encourage and channelize the investment to the desired area of sector. (Kandel; 2001, 63)

A tax incentive reduces the tax burden of an organization thereby reducing the effective tax rates. The result is reduction in investment risks, more attractive public issue of equity share and enhancement in the borrowing capacity. The willingness to invest depends upon the after tax profitability of investment, while the ability to invest depends upon the availability of internal and external funds.

The necessity for offering tax incentives is felt basically for two reasons: stretching the scope of tax beyond its revenue objective to achieve certain socio-economic ends and to mitigate the adverse impact of high taxation on corporate saving and investment activities.

3.1.5.1 Historical Background of Tax Incentives

Tax incentives system was introduced many decades ago as a method of mitigating the tax burden in investments. The use of depreciation many years ago is an example. Other types of investment incentives were also not introduced at once but gradually in different countries of the world. (Kandel; 2001, 63)

The first tax incentives system was introduced by UK in the form of the depreciation in the depression period of 1880s. The incentives were added in the form of carry forward of losses in 1890, other incentives in 1944 and cash grant system in 1967. Mexico introduced the tax incentives system in 1939.

The tendency of providing tax incentives was introduced before the Second World War but it became popular after the Second World War and widely spread in the world. Tax incentives became so much popular that the competitions between the developed and developing country became intensive to attract investment.

One after another, other country also introduced the tax incentive system to attract the investment in various sector. Philippines introduced the tax incentive in the year 1946. Puerto Rico introduced in 1946, India in 1948, Malaysia in 1958, Thailand in 1960, Ghana in 1950. The greatest economic country of the world USA introduced tax incentives in the form of investment allowance in 1954. The Asian economic country Japan introduced the tax incentives system in the year 1950.

Tax incentive system become very much popular in the decade 1950s, India had even introduced committees to study the scope of tax incentives to the productive industry. (Kandel; 2001, 64)

3.1.5.2 Tax Incentives in Nepal

Tax incentives system in Nepal has introduced first time by the Industrial Enterprises Act, 1961. This act was the first Industrial Enterprises Act. The first Industrial Enterprises Act had given the following incentives to industries:

-) Ten years tax holiday to newly established industries
-) Tax rebate of 25% of the tax liability on the discretion of His Nepal Government to the operating industries.
-) Full and partial rebate of the tariff for exporting goods and importing machineries, parts and raw materials etc.

The industrial enterprises act 1974 had given various incentives to industries, which are as follows:

-) Tax holiday of up to 18 years to the industries established in the different parts of the countries.
-) Investment and depreciation facilities to extension and modernization of industries.
-) Relief of excise and import duty etc.
-) The third Industrial Enterprises Act was enacted in the year 1981. This act had given the following incentives to industries.
 -) Tax holiday up to 12 years to industries
 -) Income tax rebate of up to 50% for exports
 -) An allowance of 15% to the new investment
 -) Levy to import of machinery, spare parts and raw materials was very nominal. It was only 1% of the imported value.
 -) Exemption of excise duty to different types of industries
 -) Exemption of sales tax to cottage industry in import of machinery, spare parts etc. and domestically produced goods.

In comparison to above acts the Industrial Enterprises Act 1992 has given more tax incentives. Those incentives are as follows:

-) Maximum rate of tax to be charged to industries as 20%
-) Completely exemptions of income tax, sales tax, excise tax etc. to the cottage industries.
-) Additional depreciation facility of 33.33% to the industries.
-) Deduction of 10% of gross income for research and technology development expenses.
-) A rebate of 10% to industries not related to tobacco, alcohol, sawmill and kattha industries using 100% of Nepalese labour and 80% or more of Nepalese raw material.
-) Investment allowances of 40% of extended fixed assets investment if the firm increased its capacity of line of production more than 25% of the original

-) Deduction of 50% of pollution control expenditure from taxable income within 2 years.
-) Provision of different types of sales tax, excise and custom rebate to industries.
-) Sales tax and excise rebate up to 13 years to the fruit processing and fruit based wine producing industries located in remote areas.
-) Besides these incentives the amendment in the act in year has given the following facilities to industries.
 -) A holiday of 50% to the national priority industries related to the construction of road, bridge, tunnels, ropeway, flying bridge, trolley bus and tram for the period of ten years
 -) A holiday of 50% to the industries other than the above, for a period of 7 years.
 -) Tax rebate of 30%, 25% and 20% to the industries established in the remote, undeveloped and underdeveloped areas specified in the appendix 3 of Industrial Enterprises Act 1992.
 -) No double taxation on raw materials used by industries.

Some provisions related to industries under this act are curtailed down by the amendments in this act. Among these the full tax holiday, exemption on dividend income and exemption in export income etc. are some examples.

3.1.5.3 Types of Tax Incentives

There are various types of tax incentives, among them some of the tax incentives are briefly described below.

3.1.5.3.1 Investment Allowance

Investment allowance is a facility given to encourage the investment in the industries. It provides the facility to deduct the some part of investment from the taxable income of the organization.

3.1.5.3.2 Investment Tax Credit

Investment tax credit is also a facility given to prospective industrialists so as to encourage investment. It provides facilities to deduct some part of investment from the tax liability.

3.1.5.3.3 Tax Holiday

The investment allowances may be favored by existing industries companies, whereas tax holiday is mainly concerned with new companies in the industrial sector. Such a relief on tax is applicable on profits earned from new investment and it will automatically terminate after the holiday period. (Poudyal; 1998, 27)

Tax holiday refers to complete or partial exemption of earnings for a specified period of time especially in the beginning. It is exemption type of fiscal incentive. It may be partial or full. Especially in the later years it becomes partial. It is assumed that after the end of holiday period, the firm pays full tax and company is not allowed to transform it into a new company. (Kandel, 2001, 68)

Tax holidays have certain benefits over other types of investment incentives. It becomes more beneficial to those profitable firms, which have no other forms of incomes during tax holiday period. Thus, it concentrates on new business organizations. (Kandel, 2001, 69)

So, the tax holiday is full or partial exemption in the tax liability for the organizations (especially for new organizations) to relief the investment cost and to promote them.

3.1.5.3.4 Accelerated Depreciation

Accelerated depreciation mean higher depreciation in initial years and gradual decrease in later years. It includes allowing the cost of fixed assets to be depreciated within a shorter period than its service life, whatever is the method of charging depreciation. (Kandel; 2001, 67)

Accelerated depreciation helps to reduce the tax burden of the industries in the initial years and shifts it to the later years. This is because the expenditure of the industries in the initial year will more than the actual expenditure, which reduces the taxable income of the organization and ultimately the tax liability of the organization.

3.1.5.3.5 Set off and Carry Forward of Losses

If there is loss under one source and profit under another source of the same head, the former is set-off against the latter. Similarly, when incomes from different heads are aggregated, the loss under one head of incomes is set-off against the income of another head. If the aggregated amount of a year turns into net loss, this loss can be carried forward in future year(s) for set-off against the income of subsequent years. (Poudyal; 1998, 31)

If there is income in any income year, organization has to pay income tax but if there is loss the organization has to bear all the burden of losses without any compensation, which discourages in investment. Therefore, the income tax provides loss adjustment facility so that the organization having losses in previous income year can relief by adjusting the losses from the income of the succeeding income year(s). Similarly, the inter-head adjustment facility also provides some relief to the loss of one income head by adjusting the losses in another head's income.

This loss adjustment facility is different in different countries. This facility can be adjusted as per the requirement of incentives. If the investment required for any industry is higher than the chances of losses in initial year will be high so, relatively long carry forward period may be provided in these sectors.

3.1.5.3.6 Incentives for Development of Specified Areas

Various tax incentives can be provided to the development of the specified backward or rural areas. The incentives may be in the form of tax rebates, tax holidays, investment allowance, and investment tax credit etc.

Those incentives provided to the rural areas for encouraging investment in those sectors so, the economic status of these areas increases.

3.1.5.3.7 Incentives For Research And Development

Research and development is the backbone of economic development of any country. Without research new invention may not be possible. But the research needs lots of amounts and is higher burden to the researcher. Therefore, a small organization could not invest in research and development due to lack of incentives. Income tax law provides some incentives in the form of deduction facilities to this expenditure and that would help to recoup the entire investment quickly in the earlier years, which encourages the expenditure in research and development.

3.1.5.3.8 Incentives to Install Pollution Control Devices

Development of economy is almost impossible without the development of industries but the industries waste pollutes the environment. Organization needs the pollution control devices to reduce the environmental effects but it needs higher amounts of investment. So, to use the pollution control devices certain facilities may be provided. It may be in the form of deduction facilities to this expenditure.

3.1.5.3.9 Export Incentives

Some tax facilities may be provided to the organizations that export it's product in abroad. The tax incentives may be in the form of tax rebate and tax concession in the income from export, market development allowance, customs and excise relief, export credit, tax exemption in the income from the export of technical know-how etc.

3.1.5.3.10 Amortization of preliminary Expenses

While commencing a business, high amount may be expended in the form of preliminary expenses, which will have long-term effect in the business such as high amount of advertisement expenditure etc. Tax incentives may provide to write off this type of expenditure within a certain period of time.

3.1.5.3.11 Employment Incentives

Generally in underdeveloped and undeveloped countries have the problem of unemployment so; certain tax incentives are provided to the industries that provide employment to the substantial employees. The incentives may be in the form of tax rebates and concessions.

3.2 Specimen for Calculation of Income from Industry as per ITA 2058

There is no separate format for calculation of income from industry but the same format for calculation of business income is to be used in calculation of industry.

The summary of the format for calculation of income from industry is given below.

(A) Computation of Income from Business

Particulars	Amount
Inclusions (Amounts to be included)	
Service fees (Section 7.2.a)	
Amounts derives from the disposal of trading stock (Section 7.2.b)	
Net gain from the disposal of the person's business assets or liabilities (Section 7.2.c)	
Amounts treated as derived from the disposal of depreciable assets (Section 7.2.d)	
Gift received by the person in respect to the business (Section 7.2.e)	

<p>Amounts derived as consideration for accepting a restriction on the capacity to conduct the business (Section 7.2.f)</p> <p>Amounts derived from investments that are effectively connected with the business (Section 7.2.g)</p> <p>Amounts to be included by reason of change in the accounting system (Section 22.6)</p> <p>Amounts to be included by reason of timing (Section 24.3)</p> <p>Recovered amount of bad debts deducted earlier (Section 25.1)</p> <p>Amounts to be included as per contract completion basis in the case of a long term contract (Section 26.1)</p> <p>Difference of actual interest and interest as per market rate in case of a soft loan (Section 27.1.d)</p> <p>Amounts paid to third person instead of actual payee (Section 29)</p> <p>Amounts derived as compensation (Section 31)</p> <p>Others amounts to be includes in profit and gains</p>	
(A) Total Inclusions	
<p>Deductible Expenses:</p> <p>General deductions (Section 13)</p> <p>Interest (Section 14)</p> <p>Cost of trading stock (Section 15)</p> <p>Repair and improvement costs (Section 16)</p> <p>Pollution control costs (Section 17)</p> <p>Research and development costs (Section 18)</p> <p>Depreciation (Section 19)</p> <p>Deductible reserve (Section 59.1)</p> <p>Other than mentioned above</p>	
(B) Total Deductible Expenses	
<p>Deductible Losses:</p> <p>Unrelieved losses from other business of this year</p> <p>Unrelieved losses from business of previous years</p>	
(C) Total Deductible Losses	
(D) Total Deduction (B+C)	
Income or loss from the business (A-D)(in case there is no loss in this row, this amounts is treated as assessable income from business)	

(B) Computation of Taxable Income

Assessable income from Employment	
Assessable income from Business	
Assessable income from Investment`	
Total assessable income	
Less: Contribution to recognized retirement funds (as per tax law)	
Less: Donation (as per tax law)	
Taxable income	

CHAPTER - IV

RESEARCH METHODOLOGY

This chapter is related to the methodology applied in the study period of this research. Both the primary and secondary sources of data have been used in this study but the secondary data is too little. The main source of primary data is opinion survey. The respondents of the opinion survey were divided into two groups. The first group is of tax experts and consists of professors, officers of IRD, tax policy makers, officers of different ministry, chartered accountants, lawyers etc. second group is of tax payers and consists of finance officers, account officers and tax officers of different industries. The main source of secondary data is economic survey of different years. Various statistical tools are used to analyze these data. The main statistical tools used in this study are simple average, percentage, correlation and chi-square test for the hypothesis developed.

4.1 Research Design

This study is mainly based on the primary data and the legal provision of incentives and facilities to industries provided by ITA 2058.

4.1.1 Analytical Research

In the analytical research the researcher has evaluated the primary data and the incentives and facilities provided by the ITA 2058 to various industries. This research has tried to analyze the tax incentives and facilities to industries on the basis of the research study, personal experience, personal interview with tax experts and the taxpayers.

4.1.2 Descriptive Research

The descriptive research has tried to find out the facts and opinion about the tax incentives and facilities to industries on the basis of opinion surveys

and; the facts and information available to the researcher. An investigation has been done to find the facts and related data about the tax incentives and facilities provided by the ITA 2058. Descriptive research is related to this investigation and has described the facts and data.

4.1.3 Empirical Investigation

An empirical investigation has been conducted so as to know the view of different respondents about the tax incentives and deduction facilities provided by the income tax act 2058; to industries and its application in the different sectors.

A set of questionnaire was developed and distributed to the different respondents. The respondents are divided in to two groups viz. tax experts and taxpayers and their views regarding the tax incentives and facilities as well as the suggestions and recommendations have been collected in this investigation.

4.2 Populations and Samples

All the tax experts and the taxpayers available in Nepal are considered as population and the tax experts and taxpayers available in Kathmandu Valley are considered as the targeted population. Out of the targeted population, samples of 60 people have been taken into consideration. The number and type of the samples are presented below.

Table: 4.1
Group of Respondents and Sample Size

S.N.	Respondents	Sample Size
1.	Tax Experts	30
2.	Tax Payers	30
Total		60

4.3 Nature and Sources of Data

Both the primary and the secondary data have been used in this study. Very few of secondary data have been used in this study. Unavailability of related secondary data is the main cause of minimum use. The secondary data have the data available in the economic survey and the primary data have been collected from the opinion survey of the tax experts and the taxpayers.

4.4 Selection of the Respondents

A set of questionnaire has been developed and distributed to the various respondents. The respondents are selected judgmentally from the various sectors. They are divided into two groups' viz. tax experts and taxpayers. The first group includes the experts form various sectors such as chartered accountants, lawyers, professors, policy makers, auditors etc. and taxpayers includes the finance officers, tax officers, account officers, internal auditors etc. of the various manufacturing industries.

4.5 Data Collection Procedure

A set of questionnaire was developed and distributed to the selected respondents. The questionnaire was distributed to various respondents personally. Additional information also have collected from the respondents by personal interview at the time of opinion survey.

4.6 Procedure for Processing and Analysis of Data

First of all, the information and the data received from the various sources are systematically tabulated in separate table and then the statistical tools are used to achieve the desired objectives. The various statistical tools used are: simple average, percentages, average, correlation coefficient, and chi-square for hypothesis test. Some descriptive data are analyzed on the basis of his personal experience, on the basis of study and personal interview.

The hypothesis has been tested to check whether there is significant difference between the view of tax experts and taxpayers. The main tool used is chi-square test.

4.7 Weight of the Choice

Questionnaire has been asked either in the 'yes' or 'no' format or choice format or rank format or to specify. In the rank alternatives, the first choice has got the highest point and the last choice has got lowest point. The total points available to each alternative have been converted into percentage figure. The alternative with the highest percentage has been ranked as most important and the alternative with the lowest percentage has been ranked as the least important. For example, if there are five alternatives, the most important alternative ranked by the respondent has got five points and the least important alternative ranked by the respondents has got one point. The alternative, which is not ranked, has not got any point.

4.8 Respondents' Profile

Questionnaire is developed and distributed to the 80 respondents but received from the 60 respondents only. Each group of respondents consists of 30 respondents. The following table shows the different numbers and percentages of the respondents.

Table: 4.2
Respondents' Profile

S.N.	Denominations	Total Sample		Response Receives	
		No.	%	No.	%
1.	Tax Experts	40	50	30	50
2.	Tax Payers	40	50	30	50
Total		80	100	60	100

4.9 Legal Provision and Analysis

This chapter is devoted to the analysis of legal provision related to the tax incentives and facilities under ITA 2058. The various incentives and facilities provided by the new ITA 2058 to the industries are analyzed in this chapter so as to conclude whether the tax incentives and facilities are sufficient enough to promote industries or not.

4.9.1 An Analysis of Tax Incentives and Facilities

ITA 2058 has provided various tax incentives and facilities to industries. These incentives and facilities are analyzed below.

4.9.1.1 Tax Concessions Available to Certain Special Industries

As per the clarification clauses of Section 11, a special industry is an industry categorized under Section 3 of Industrial Enterprises Act, 1992. These industries are the manufacturing industries other than cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of similar nature utilizing tobacco as the basis raw material and alcohol or beer producing industries.

As per Section 3, the manufacturing industries are those which produce goods by utilizing or processing raw material, semi-processed materials, by products or waste products or any other goods.

The tax rate applicable to these industries is 20% in flat rate, which seems to be nominal to the larger industries but it is not suitable to small industries and export industries. To encourage the investment in small as well as the export industries, the tax rate should be minimized. It should be in progressive rate rather than flat rate.

4.9.1.2 Tax Concession to a Special Industry Having Six Hundred or More Employees {Section 11(3)(a)}

Tax concession is available to a person running a special industry, which provides direct employment to six hundreds or more Nepali citizens during the whole income year.

Direct employment mean employment by the person but it does not include the contract labour, casual labour, of part time labour.

Tax concession of 10% available to the industry, which employ 600 or more employees throughout an income year.

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	18%
Natural person (Couple)		
First Rs. 1,40,000	Nil	Nil
Next Rs. 75,000	15%	13.5%
Rest	20%	18%
Natural Person(Individual)		
First Rs. 1,15,000	Nil	Nil
Next Rs. 75,000	15%	13.5%
Rest	20%	18%

Note: The concession for an industrial unit run by a natural person is available from the income year 2060-61 under finance ordinance, 2060.

One of the major problems of Nepal is unemployment and the tax concession provided to the employment oriented industries by income tax act is very much lower i.e. 10% only. Unemployment is very common in Nepal and to reduce the unemployment, industries employing more employees should be encouraged. More tax incentives should be provided to these industries. So,

the 10% rebate to the industry, which employs 600 or more, should be increased to 25%.

4.9.1.3 Tax Concession to Special Industries Established in Different Areas

Income tax act has provided tax concession to industries established in various areas, which are presented below.

4.9.1.3.1 Tax Concession in Remote Area {Section 11(3)(b)}

If a person has a special industry, which has been established in an area declared as 'Remote Area' by Nepal Government, can avail the concession of 30% of a rate applicable to a Special industry.

These districts of Nepal are declared as remote area:

- | | | |
|-------------------|----------------|---------------|
| 1. Darchula | 2. Bajhang | 3. Bajura |
| 4. Humla | 5. Jumla | 6. Mugu |
| 7. Kalikot | 8. Dolpa | 9. Mustang |
| 10. Manang | 11. Solukhumbu | 12. Ramechhap |
| 13. Khotang | 14. Bhojpur | 15. Achham |
| 16. Dailekha | 17. Jajarkot | 18. Rukum |
| 19. Okhaldhunga | 20. Myangdi | 21. Terathum |
| 22. Sankhuwasabha | | |

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	14%
Natural person(Couple)		
First Rs. 1,40,000	Nil	Nil
Next Rs. 75,000	15%	10.5%

Rest	20%	14%
Natural Person(Individual)		
First Rs. 1,15,000	Nil	Nil
Next Rs. 75,000	15%	10.5%
Rest	20%	14%

Note 1.: The concession for an industrial unit run by a natural person is available from the income year 2060-61 under finance ordinance, 2060.

Note 2.: The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

If industries are operated in remote areas, the economic activities as well as the income of the poor people increase through employment. It will consume the local productions as raw material and also help in the equal distribution of income. So, promotion of industries in remote areas is necessary but the income tax concession is very nominal i.e. 30%. Therefore, the tax concession should be increased to near about 75% to the industries established in remote areas.

4.9.1.3.2 Tax Concession in Undeveloped Area {Section 11(3)(b)}

If a person has a special industry, which has been established at any area declared as 'Undeveloped Area' by Nepal Government, the person can avail a concession of 25% of a rate applicable to a special industry.

These districts of Nepal are declared as undeveloped area:

- | | | |
|---------------|----------------|-------------|
| 1. Taplejung | 2. Rolpa | 3. Baitadi |
| 4. Rasuwa | 5. Gulmi | 6. Parbat |
| 7. Dadeldhura | 8. Pyuthan | 9. Doti |
| 10. Salyan | 11. Panchathar | 12. Baglung |

13. Sindhupalchowk

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	15%
Natural person(Couple)		
First Rs. 1,40,000	Nil	Nil
Next Rs. 75,000	15%	11.25%
Rest	20%	15%
Natural Person(Individual)		
First Rs. 1,15,000	Nil	Nil
Next Rs. 75,000	15%	11.25%
Rest	20%	15%

Note 1.: The concession for an industrial unit run by a natural person is available from the income year 2060-61 under finance ordinance, 2060.

Note 2.: The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

As in remote areas, in undeveloped areas contribution of industries will be more beneficial but the tax concession is only 25%. Therefore, it should be increased to 50%.

4.9.1.3.3 Tax Concessions in Underdeveloped Area {Section 11(3)(b)}

If a person has special industry, which is established at any area declared as 'Underdeveloped Area' by Nepal Government, the person can avail a concession of 20% of rate applicable to a special industry.

These districts of Nepal are declared as underdeveloped area:

- | | | |
|---------------------|-----------------|--------------|
| 1. Kailali | 2. Arghakhanchi | 3. Surkhet |
| 4. Palpa | 5. Syangja | 6. Dhading |
| 7. Lamjung | 8. Tanahu | 9. Gorkha |
| 10. Sindhuli | 11. Udayapur | 12. Dhankuta |
| 13. Ilam | 14. Kanchanpur | 15. Bardia |
| 16. Dang | 17. Nuwakot | 18. Dolakha |
| 19. Kavrepalanchowk | | |

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	16%
Natural person (Couple)		
First Rs. 1,40,000	Nil	Nil
Next Rs. 75,000	15%	12%
Rest	20%	16%
Natural Person (Individual)		
First Rs. 1,15,000	Nil	Nil
Next Rs. 75,000	15%	12%
Rest	20%	16%

Note 1.: The concession for an industrial unit run by a natural person is available from the income year 2060-61 under finance ordinance, 2060.

Note 2.: The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

Since, the economic activities of these area is not so poor as in remote and undeveloped areas the tax concession of 20% to the industries established in underdeveloped areas seems to be sufficient.

Note: 1. Any industry, which has entitled to get both the tax concessions under sections 11(3)(a) and 11(3)(b) should choose either of them but not both of them.

2. The tax concession under section 11(3)(b) is only for 10 income years.

The tax concession period of 10 years to the new industries established in different areas seems to be insufficient because almost all of the new industries will be in loss in the initial years and when they passes to the stage of profit the tax concession period expires. So, the tax concession period of 10 years is not sufficient and it should be increased. It should be 15 years to the industries established in underdeveloped areas and 20 years to the industries established in the remote areas.

4.9.1.4 Accelerated Depreciation Facilities Available to Certain Special Industries {Section 19, Schedule - 2}

Depreciation is the reduction in the original value of a depreciable asset due to use or obsolescence over the expected life of the asset. Depreciation is an important factor for reduction of tax liability of a person because depreciation is a deductible expense. For the purpose of calculating a person's income for an income year from any business or investment, the person is allowed to deduct the depreciation of depreciable assets owned and used by the person during the year in the production of income from the business or investment. (Amatya; 2060,130)

Income tax act 2058 has categorized the depreciable assets into five classes and each class includes different pools (groups). The act has also specified the rate and procedure of computing depreciation for each class. The treatment with regard to the disposal of the depreciation for each class and depreciation rate for the concerned class is as follows.

Class	Assets Included in each class	Depreciation rate in Percentage
A	Buildings, structure and similar works of a permanent nature	5
B	Computers, data handling equipment, fixtures, office furniture and office equipment	25
C	Automobiles, buses and minibuses	20
D	Construction and earth-moving equipment, any depreciable asset not included in another class,	15
E	capitalized PCC and R&D. Intangible Assets	$\frac{1}{\text{usefullife}}$

ITA 2058 has provided a facility to charge additional depreciation to the special industries, entity engaged in building public infrastructure etc. This additional depreciation seems to be sufficient to industries. If the additional depreciation is more than 1/3, industry would be in higher loss in initial year, which may not be recovered in 4 years whereas the taxable income will be very high in the succeeding years due low amount of depreciation chargeable.

4.9.1.5 Pollution Control Cost {Section 17}

ITA 2058 has allowed deducting the expenditure made on installing the pollution control cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

This deduction facility has two types of impact. In one hand, if the whole amount is not allowed to deduct industry may be discouraged to install

pollution control device. In other hand, if whole amount allowed to deduct the industry may purchase and install this device at the income year in which the taxable income is high so as to reduce the tax liability. The excess amount can be allowed to capitalize and depreciate. Therefore, the deduction facilities given by this ITA seems to be sufficient.

4.9.1.6 Research and Development Cost {Section 18}

ITA 2058 has allowed deducting the expenditure made on research and development cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

ITA has given similar deduction facilities to pollution control cost and research and development cost. Therefore, it should be like pollution control cost.

4.9.1.7 Carry Forward and Set off of Industrial Losses {section 20}

ITA 2058 has allowed the business losses from the investment losses but the tax rate should be same. This facility seems to be unusual to the industry because the tax rate applicable to industry is 20% and the tax rate of investment income is 25%. So, the industry cannot set off and carry forward its losses from investment income.

On the other hand, the carry forward facility to industry and normal business is same, which seems to be inequitable. Industries need higher amount of investment and have more risk in investment than any trading business but the carry forward and set off facilities of industrial losses is similar to industries and trading business. So, the loss adjustment facility should be more liberal and it should not be less than seven years.

CHAPTER V

PRESENTATION AND ANALYSIS OF DATA: AN EMPIRICAL INVESTIGATION

5.1 Introduction

The effectiveness of this thesis is highlighted by the opinion survey. Thus, the main portion of the investigation depends upon the view of respondents rather than secondary data. This investigation has been conducted for the purpose of in sighting in the depth of tax incentive, tax planning and correlation between these two terms in the context of Nepalese industries and current legal and business environment. For which, questionnaires have been developed and responses collected from the respondents. A set of 60 questionnaires has been received from the respondents out of the 80 questionnaires distributed to various respondents. Respondents have been classified into two groups' viz. tax experts (includes professors and lecturers of tax, auditors, tax administrators, tax officers and tax researchers etc.) and taxpayers (includes proprietors, auditors, financial managers etc. of different industries of Kathmandu). The responses received from various respondents have been arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of this study. (See the format of questionnaire in appendix I.)

The questionnaire has been asked either for a yes/no response or choice alternatives or ranking of the alternatives. In the choice alternatives, the first choice has the most important and the last choice has the least important. The choices among the ranking alternatives have been assigned weights according to the number of alternatives. If the number of alternatives has seven, the first choice has got seven points and the last preferred choice has got one point. Any alternative, which has not ranked, got no points. The total points available to each choice have been converted into percentages with reference to the total points available for all choices. The choice with the highest percentage score

has been ranked as the most important choice and the one with the lowest percentage score has been ranked as the last choice.

The following table shows the groups of respondents.

Table: 5.1
Groups of the Respondents

S.N.	Groups of Respondents	Sample Size
1.	Tax experts	30
2.	Tax payers	30
	Total	60

5.2 Sufficiency of Tax Incentives

The opinion of the respondents regarded the sufficiency of tax incentives provided by ITA 2058 was a crucial one. Thus, a question "Do you think the tax incentives provided by ITA 2058 to industries are sufficient to attract new industries?" has been asked. The respondents were asked to reply their answer by choosing 'yes' or 'no'. The respondents have been deal with this question like given billow in the tabulated format.

Table: 5.2
Sufficiency of tax incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	23	77	7	23	30	100
Tax Payers	14	24	16	53	30	100
Total	37	62	23	38	60	100

Source: Opinion Survey.

From the above table, it is seen that 62 percentages of the respondents have viewed that ITA 2058 has provided sufficient tax incentives. 77 present of the tax experts think that tax incentives are enough but tax payer are not satisfied with the incentives provided by the ITA 2058 as tax experts are. Only 14 present of the tax payer are satisfied with the given incentives and facilities.

Some of the respondents has mentioned that tax incentives does not play major role in attracting new industries instead of tax incentives; other factors such as infrastructure, availability of market, political stability, industrial culture, availability of capital etc. play major role in attracting industries. If this facilities are available sufficiently than tax incentives may play role in attracting industries.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	23	7	30
Tax Payers	14	16	30
Column Total	37	23	60

Source: Table 5.2

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding the tax incentives provided by ITA 2058.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers, regarding the tax incentives provided by ITA 2058.

Test statistics: Under H₀, the test statistic is

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

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row,Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	23	$\frac{30 \times 37}{60} = 18.5$	4.5	20.25	1.095
(1,2)	7	$\frac{30 \times 23}{60} = 11.5$	- 4.5	20.25	1.76
(2,1)	14	$\frac{30 \times 37}{60} = 18.5$	4.5	20.25	1.095
(2,2)	16	$\frac{30 \times 23}{60} = 11.5$	- 4.5	20.25	1.76
					$\frac{(f_o - f_e)^2}{f_e} = 5.71$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 5.71$$

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

Level of significance, $\alpha = 5\% = 0.05$

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

Since calculated $\chi^2 >$ tabulated χ^2 , therefore the null hypothesis is rejected. So, there is significant difference between the view of tax experts and the taxpayers regarding the tax incentives provided by ITA 2058.

The real incentives user is tax payer. So, in the conclusion, it can be said that however major facilities are provided by ITA are seems to be sufficient but further incentives and scientific dealing is still required which help to exercise the incentives.

5.3 Tax Planning as a Tool of Reducing Financial Burden

In order to insight in the view of respondent towards the tax planning i.e. tax planning is a tool for reducing financial burden, second question, "Do you accept that tax planning is one of the tools to reduce financial burden?" has been asked. The responses of the various respondents have been presented in the following table.

Table: 5.3
Tax planning as a tool of reducing financial burden

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	22	73	8	27	30	100
Tax Payers	21	70	9	30	30	100
Total	43	71	17	29	60	100

Source: Opinion Survey.

Above table shows that, it is clearly understood that most of the respondents agree that tax planning is a tool to minimize the financial burden. Only 27 presents of the tax experts and 30 presents of the tax payers are against to the arguments which show that both tax experts and tax payers understand the importance of tax planning.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
-------------	-----	----	-----------

Tax Experts	22	8	30
Tax Payers	21	9	30
Column Total	43	17	60

Source: Table 5.3

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding the argument of tax planning as a tool of reducing financial burden.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers, regarding the argument of tax planning as a tool of reducing financial burden.

Test statistics: Under H₀, the test statistic is

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

Where, f_o=Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row,Column)	f_0	f_e	f_0-f_e	$(f_0-f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1,1)	22	$\frac{30 \times 43}{60} = 21.5$	0.5	0.25	0.012
(1,2)	8	$\frac{30 \times 17}{60} = 8.5$	- 0.5	0.25	0.029
(2,1)	21	$\frac{30 \times 43}{60} = 21.5$	0.5	0.25	0.012
(2,2)	9	$\frac{30 \times 17}{60} = 8.5$	-0.5	0.25	0.029
					$\frac{(f_0 - f_e)^2}{f_e}$

$$\text{Calculated } \chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 0.082$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

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

Since calculated $\chi^2 <$ tabulated χ^2 , The null hypothesis is accepted. Therefore, there is no significant difference between the view of tax experts and the taxpayers regarding the argument of tax planning as a tool of reducing financial burden.

Hence, it can be concluded that most of the tax experts and tax payers can understand the term tax planning and they imagine that tax planning minimizes the tax amount or tax burden to be paid to government. It also signifies that various industrial organization have planned tax.

5.4 Opinion Regarding Whether Sufficient Scope of Tax Planning Provided by Present ITA or Not.

In order to know the respondents opinion about whether the scope of tax planning is sufficient or not, third question "Do you think the present ITA has provided sufficient scope in tax planning?" has been asked. The responses received from the various respondents have been tabulated as follows:

Table: 5.4
Sufficient scope of tax planning in industrial organizations

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	11	37	19	63	30	100
Tax Payers	3	10	27	90	30	100
Total	14	23	46	77	60	100

Source: Opinion Survey

From the above table, it is understood that about 23 percentages of the respondents have accepted that sufficient scope of tax planning is provided by Present ITA. Seventy seven percentages of the respondents have not agreed that the sufficient scope of tax planning is provided by Present ITA.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	11	19	30
Tax Payers	3	27	30
Column Total	14	46	60

Source: Table 5.4

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers'; regarding sufficient scope of tax planning that is provided by Present ITA

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers'; sufficient scope of tax planning that is provided by Present ITA

Test statistics: Under H₀, the test statistic is

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

Where, f_o=Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row,Column)	f _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	11	$\frac{30 \times 14}{60} = 7$	4	16	2.29
(1,2)	19	$\frac{30 \times 46}{60} = 23$	- 4	16	0.7
(2,1)	3	$\frac{30 \times 14}{60} = 7$	-4	16	2.29
(2,2)	27	$\frac{30 \times 46}{60} = 23$	4	16	0.7
					$\frac{(f_o - f_e)^2}{f_e} = 5.98$

$$\text{Calculated } \chi^2 = \frac{(fo - fe)^2}{fe} = 5.98$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

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

Since calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding sufficient scope of tax planning that is provided by Present ITA.

5.5 The Incentives That Are Provided by ITA to the industries

Most of the respondents have responded that the existing incentives to industries are not sufficient. For the respondents who have satisfied with the question number three, a supplementary ranking question has been asked with some possible additional incentives including two open options. The question is "if yes, what are the areas?" Respondents have been requested to rank their responses from 1 (most important), 2 to next most important, 3 to third most important and respectively up to 7th important. The responses received from the various respondents have been tabulated as follows:

Table: 5.5
Calculation of rank correlation coefficient

S.N.	Alternatives	T.E. (X)	T.P. (Y)	Rank For X (R ₁)	Rank For Y (R ₂)	D= R ₁ -R ₂	D ²
1.	Pollution Control Cost	27	6	4	3	1	1
2.	Research and Development Cost	23	3	5	5	0	0
3.	Location Decision	39	4	2	4	-2	4
4.	Capital Budgeting(Depreciation)	41	16	1	1	0	0
5.	Carry Forward of Loss	37	12	3	2	1	1
6.	Inter head Adjustment	7	2	6	6	0	0
7.	Others	6	1	7	7	0	0
							<i>D2 X6</i>

(Note: X refers to tax experts and Y refers to taxpayers)

We have formula,

$$r=1-\frac{6 \sum D^2}{n(n^2-1)}$$

$$=1-\frac{6 \times 6}{7(7^2-1)}$$

$$=0.97$$

Since, the rank correlation coefficient is higher i.e. 0.97, there is higher correlation between the views of tax experts and taxpayers regarding incentives provided by ITA. So, it can be concluded that most of the satisfied respondents with the incentives provided by ITA think that Capital budgeting, carry forward of loss, PCC and R&D have enough incentives respectively. They have given

less value to inter head adjustment and other topic. The researcher wants to disclose that only 55% have ranked their responses.

Some of the respondents have responded the other tax incentives in the tax incentives which are as follows:

-) Tax rate of 20% to industries instead of normal tax rate of 25% itself is the tax incentives
-) Donation given to certain tax exempted organization
-) Repair and Improvement expenses

5.6 Relation Between Tax Incentives and Tax Planning

To find out the respondents opinion about the relation between tax incentives and tax planning a question, "Tax incentives and tax planning are positively correlated". Or "More tax incentives more tax planning". Do you agree with this statement?" has been asked. The responses received from the various respondents have been tabulated in the following table.

Table: 5.6

Positive relation between tax planning and tax incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	18	60	12	30	30	100
Tax Payers	26	87	4	13	30	100
Total	44	73	16	27	60	100

Source: Opinion Survey

From the above table, it can be said that most of the respondents agree that tax incentives are closely related with tax planning. It is seen that the 67% of the tax experts and 87% of the tax payers are satisfied with the argument. In

total 77% of the respondents think that tax incentives and tax planning are closely related each other and they have positive correlation.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	18	12	30
Tax Payers	26	4	30
Column Total	44	16	60

Source: Table 4.6

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding the relation of tax incentives and tax planning.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers regarding the relation of tax incentives and tax planning Test statistics: Under H₀, the test statistic is

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

Where, f_o= Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row,Column)	f_0	f_e	f_0-f_e	$(f_0-f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1,1)	18	$\frac{30 \times 44}{60}$ =22	- 4	16	0.73
(1,2)	12	$\frac{30 \times 16}{60}$ =8	4	16	2
(2,1)	26	$\frac{30 \times 44}{60}$ =22	4	16	0.73
(2,2)	4	$\frac{30 \times 16}{60}$ =8	- 4	16	2
					$\frac{(f_0 - f_e)^2}{f_e}$ =5.46

$$\text{Calculated } \chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 5.46$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

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

Since, tabulated $\chi^2 <$ calculated χ^2 . The null hypothesis is rejected i.e. alternative hypothesis is accepted. So, there is no significant difference between the views of tax experts and the taxpayers regarding the relation of tax incentives and tax planning

So, it can be concluded that the opinion towards the relation of tax incentives and tax planning is same. Both tax experts and tax payers accept that tax incentive is a prime factor to influence the tax planning and off course they have positive relation.

Another supplementary question of Question no. 4 has been asked to know the respondents view to specify the causes, "If yes/no, why? Please specify". Some of the respondents, both responding yes/no, have presented some views and some of them are given below:

Responding Yes

Tax incentive increases tax planning because

-) tax incentive encourages tax planning.
-) tax incentive reduces tax burden if tax planned.
-) tax incentive widens the scope of tax planning.
-) tax incentive is itself a cause of tax planning.
-) tax incentive increases the number of investor and welcomes the new industrialist
-) Tax incentive increases the capacity of any industry.

Responding No

Tax incentives doesn't affect tax planning because

-) main problem is not about more tax incentives but about the practice and the awareness of tax planning.
-) tax incentives doesn't only determine the tax planning but attitude of tax payers, cooperative tax administration and tax procedures are also the causes of tax planning.
-) tax evasion and tax avoidance are main constraints that should be minimized.
-) there are no big industries to plan tax.

5.7 Additional Requirement of Tax Incentives

To know the opinion of the different respondents about the additional requirement of tax incentives to increase the scope of tax planning a question, "Is there any other incentive required in ITA 2058 which increases the scope of tax planning?" Different responses given by the various respondents have been presented in the table below.

Table: 5.7
Additional requirement of tax incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	10	33	20	67	30	100
Tax Payers	27	90	3	10	30	100
Total	37	62	23	38	60	100

Source: Opinion Survey

In above table , it can be seen that 62% of the respondent have viewed that additional tax incentives is required to increase the scope of tax planning. However, only 33% of the tax experts imagine that additional tax incentives are needed. But 62% of the respondents' positive response shows that they are highly expecting the further incentives.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	10	20	30
Tax Payers	27	3	30
Column Total	37	23	60

Source: Table 5.7

Null Hypothesis, H₀: There is not significant difference of the view between tax experts and taxpayers, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Test statistics: Under H₀, the test statistic is

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

Where, f_o=Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Calculation of χ^2 :

(Row,Column)	f _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	10	$\frac{30 \times 37}{60} = 18.5$	- 8.5	72.5	3.91
(1,2)	20	$\frac{30 \times 23}{60} = 11.5$	8.5	72.5	6.30
(2,1)	27	$\frac{30 \times 37}{60} = 18.5$	8.5	72.5	3.91
(2,2)	3	$\frac{30 \times 23}{60} = 11.5$	- 8.5	72.5	3.91
					$\frac{(f_o - f_e)^2}{f_e} = 20.42$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 20.42$$

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

Level of significance, $\alpha = 5\% = 0.05$

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

Since calculated $\chi^2 >$ tabulated χ^2 . The null hypothesis is rejected. Therefore, there is significant difference of the view between tax experts and taxpayers regarding the requirement of additional tax incentives to increase the scope of tax planning.

So, it can be concluded that the opinion of tax experts and tax payers towards requirement of tax incentives is not same however both of them desire for the additional tax incentives.

The comments that are provided by the respondents are as follows:-

-) Sufficient export incentives should be provided to the export industries.
-) Incentives should be provided on the basis of the contribution of the industries in the government revenue.
-) As equal as industrialist, incentives should be provided to the traders who export the Nepalese products on abroad.
-) Tax rate to industry should be 10% only.
-) More incentives and facilities should be provided to the Agro based industry.
-) The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded, e.g. tax rebate, tax holidays, financial reward, loan facilities, etc.
-) Tax rate of banking and financial should be reduced to normal rate of 20% only. The economic development of any country is ensured

when there is developed financial sector but in Nepal the financial sector is still not developed so much, what it should be.

-) Tourism industries may be the major earner of the foreign exchange and the industries related to the tourism should be provided more incentives and facilities.

Various respondents have responded about other tax incentives requirement in such a manner the tax incentives should be increased in those industries which the respondents belongs to. For instance, the banker said that the tax incentives to banking sector should be increased; exporter said the tax incentives to exports should be increased.

5.8 Opinions about the Causes of not Widely Using of Tax Planning

To know the opinion of the respondents about the causes of not widely using of tax planning, a question, "Why tax planning are not widely used in Nepal although sufficient tax incentive seems to be provided ITA 2058" has been asked. Various alternatives have been provided to the respondents with open boundary. Respondents have been requested to rank their responses from 1 (most important), 2 to next most important, 3 to third most important and respectively. The responses received from the various respondents have been tabulated as follows:

Table: 5.8
Calculation of rank correlation coefficient

S.N.	Alternatives	T.E. (X)	T.P. (Y)	Rank For X (R ₁)	Rank For Y (R ₂)	D= R ₁ -R ₂	D ²
1.	A	51	32	4	3	1	1
2.	B	51	30	5	5	0	0
3.	C	47	67	2	4	-2	4
4.	D	71	80	1	1	0	0
5.	E	56	78	3	2	1	1
6.	F	22	9	6	6	0	0
7.	G	18	9	7	7	0	0
8.	H	15	8	8	8	0	0
							<i>D2 X6</i>

(Note: X refers to tax experts and Y refers to taxpayers)

Where,

A = Because tax planning is complicated and boring

B = Because tax planning requires professional and highly qualified manpower

C = Because tax planning is lengthy and costly

D = Because tax administration is not co-operative

E = Because people are unaware about tax planning

F = Because there are no more big industries in Nepal

G = Because tax incentives are not enough

H = Others

We have formula,

$$r=1-\frac{6 \ D2}{n(n2 \ Z1)}$$

$$=1-\frac{6 \times 6}{8(8 \times 8-1)} = 0.93$$

Since, the rank correlation coefficient is higher i.e. 0.93, there is higher correlation between the views of tax experts and taxpayers regarding incentives provided by ITA. So it can be said from the respondents' view that the most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is “People are unaware about tax planning” than that of “Tax planning is lengthy and costly” and so on.

In addition to above mentioned tax causes, respondents have responded the following causes that negatively affected tax planning:

-) tax evasion and tax avoidance are highly practiced in Nepal
-) people think tax as a burden rather than their responsibility, so they used to practice tax evasion and avoidance rather than tax planning
-) lack of tax planning culture
-) lack of transparent accounting system; if there is transparent accounting system they can not practice tax evasion and avoidance and the only one option remained is tax planning
-) tax administrators are corrupted; so they encourage the tax payers in evasion and avoidance of tax for their personal benefit
-) people think tax is misused; income from the tax are not used in productive and social sector instead they are used in purchasing arms and weapons and also used in the personal benefit of the political leaders and bureaucratic persons. So, instead of tax planning they prefer tax evasion and tax avoidance.

5.9 Opinion Towards Difficulties to Plan Tax Because of Complicated or Impractical Tax Incentives

To know the opinion of the different respondents about the difficulties to plan tax because of complicated or impractical tax incentives a question, " Do you know any types of difficulties to plan tax because of complicated or impractical tax incentives?" has been asked. Different responses given by the various respondents have been presented in the table given below.

Table: 5.9

Difficulties to plan tax because of complicated or impractical tax incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	16	53	14	47	30	100
Tax Payers	20	67	10	33	30	100
Total	36	60	24	40	60	100

Source: Opinion Survey

In above table, it can be seen that 60% of the respondent have viewed that there are lots of difficulties to plan tax because of complicated or impractical tax incentives However, 47% of the tax experts and 33% of the tax payers have viewed that there is no difficulty to plan tax because of complicated or impractical tax incentives provided by ITA 2058.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	16	14	30
Tax Payers	20	10	30
Column Total	36	24	60

Source: Table 5.9

Null Hypothesis, H₀: There is not significant difference of the view between tax experts and taxpayers, regarding the difficulties to plan tax because of complicated or impractical tax incentives.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers, regarding difficulties to plan tax because of complicated or impractical tax incentives.

Test statistics: Under H₀, the test statistic is

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

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	17	$\frac{30 \times 36}{60} = 18$	- 1	1	0.055
(1,2)	13	$\frac{30 \times 24}{60} = 12$	1	1	0.083
(2,1)	20	$\frac{30 \times 36}{60} = 18$	1	1	0.055
(2,2)	10	$\frac{30 \times 24}{60} = 12$	- 1	1	0.083
					$\frac{(f_o - f_e)^2}{f_e} = 0.276$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 0.276$$

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

Level of significance, $\alpha = 5\% = 0.05$

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

Since calculated $\chi^2 < \text{tabulated } \chi^2$. The null hypothesis is accepted. Therefore, there is no significant difference of the view between tax experts and tax payers regarding difficulties to plan tax because of complicated or impractical tax incentives.

So, it can be concluded that the opinion of tax experts and tax payers towards requirement of tax incentives is same and both of them think that there are certain difficulties to plan tax because of complicated or impractical tax incentives.

A supplementary question to the respondents who have given their response in positive, they have been asked, an open question, "**If yes, please specify,**" has been asked. Respondents have to specify the areas where the difficulties occur because of complicated or impractical tax incentives. The major responses have been presented below:

-) To derive actual deductible pollution control cost, R & D cost is difficulty. Complexity in calculation has made it impractical.
-) The rebate period of 10 years is seems to be impractical because the actual benefit from the short rebate period is less than the opportunity cost
-) ITA 2058 has no clear provision regarding tax planning
-) Tax planner feels impractical tax benefits, tax concessions, etc
-) Tax management and administration.

5.10 Opinion Related to Present Tax Incentive which has Helped to Plan Tax in Industrial Sector

To know the view of the respondents about present tax incentives which has helped to plan tax in industrial sector a question, "To what extent the present tax incentive has helped to plan tax in industrial sector?" has been asked. Four options were provided and were requested to tick upon one option. The responses from various respondents are presented below:

Table 5.10

Alternatives	No. of respondent	%
a) Very much	4	7
b) Sufficient	20	33
c) Somehow	35	58
d) Not at all	1	2
Total	60	100

The above table clearly shows that most of the respondents are not satisfied with the argument related to present tax incentive which has helped to plan tax in industrial sector. 58% of the respondent think that current tax incentives has helped somehow to plan tax and only 33% of the respondents argue that the current tax incentives is sufficient. One respondent is very pessimistic and four respondents are very optimistic who feel that the present tax incentives are very much helpful to plan tax. Thus, it can be concluded that current tax incentive is not enough helpful to plan tax.

5.11 Opinion about Current Tax Incentives to Extent the Scope of Tax Planning in Rural Area

In order to know the respondents opinion regarding the tax incentives to extent the

scope of tax planning to initiate investing in rural areas of Nepal, another question, "Do you think that tax incentives are enough to extant the scope of tax planning in rural area?" has been asked. The respondents have to answer either 'Yes' or 'No'. The responses of the various respondents have been presented in the following table.

Table: 5.11
Opinion about provision to invest in rural areas of Nepal

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	19	63	11	37	30	100
Tax Payers	11	37	19	63	30	100
Total	30	50	30	50	60	100

Source: Opinion Survey.

Above table shows that 63% of the tax experts and 37% of the tax payers accept that the facilities has initiated enough to invest in rural areas of Nepal in respect to tax planning. In overall, 50% only of the respondents have accepted and remaining 50% have not accepted.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	19	11	30
Tax Payers	11	19	30
Column Total	30	30	60

Source: Table 5.11

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding provision to initiate investing in rural areas of Nepal or extant the scope of tax planning.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers, regarding provision to initiate investing in rural areas of Nepal or extant the scope of tax planning.

Test statistics: Under H₀, the test statistic is

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

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row,Column)	F _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	19	$\frac{30 \times 30}{60} = 15$	4	16	1.07
(1,2)	11	$\frac{30 \times 30}{60} = 15$	-4	16	1.07
(2,1)	19	$\frac{30 \times 30}{60} = 15$	4	16	1.07
(2,2)	11	$\frac{30 \times 30}{60} = 15$	-4	16	1.07
					$\frac{(f_o - f_e)^2}{f_e} = 4.28$

$$\text{Calculated } \chi^2 = \frac{(fo - fe)^2}{fe} = 4.28$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

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

Since calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding provision to initiate investing in rural areas of Nepal.

Conclusion: It can be concluded that tax experts and administrators agree that the provision provided by ITA is enough to initiate investing in rural areas of Nepal but the tax payers do not agree with this argument.

Supplementary question have been asked to the respondents who have negatively responded in the above question. Alternatives have not given. Most of the respondents have not specified any areas and sectors although they are not satisfied with the presently provided provision. Some of them have stated that tax rebate of 30% should be increased to 50%, number of tax holiday year should be added, and tax rebate period of 10 years should be life long. Most of them advised that tax is not the only one element to run the industry but it is one of them.

5.12 Opinion Regarding Extent of Tax Planning in Nepal

In order to know the opinion about the extent of tax planning in Nepal, one question "In your opinion, to what extent industrialist plan tax in Nepal." has been asked. The respondents have to select among the given alternatives. The response of the various respondents is presented in the following table.

Table 5.12
Tax planning trend in industrial sector of Nepal

Respondents Responses	Tax Experts		Tax Payers		Column Total	
	Number	%	Number	%	Number	%
Not at all	0	0	2	7	2	3
Too little	12	40	17	56	29	48
To some extent	16	53	9	30	25	42
Significantly	2	7	2	7	4	7
Extremely	0	0	0	0	0	0
Row Total	30	100	30	100	60	100

From the above table, it is seen that most of the respondents think the tax planning is not widely used tool in Nepal. Tax payers are more pessimistic than tax experts. In total, 48% viewed 'Too little' and 42% viewed 'To some extent' in the use of tax planning. 0% of the tax experts have voted for 'Extreme' use of tax planning and to 'Not at all'. Only 7% of the respondents viewed that tax planning is 'Extremely' used in Nepal.

At last, it can be concluded that no tax payers and tax experts agree that neither tax is not planned at all nor planned extremely.

5.13 Opinion Regarding 10 Year's Rebate Period

In order to know the opinion of the respondent about the 10 years rebate period a question "Do you think the period of 10 years tax rebate is sufficient to increase the scope of tax planning?" The respondents have to respond either 'Yes' or 'No'. Responses of the various respondents have been presented in the table below.

Table: 5.13
Opinion about 10 yrs. tax rebate period

Alternatives	Yes		No		Total
	No	%	No	%	
Tax Experts	18	60	12	40	30
Tax Payers	5	17	25	83	30
Total	23	38	37	62	60

Source: Opinion Survey

From the above table, it is clear that 60% of the tax experts agree that the 10 years rebate is sufficient but only 17% of tax payers agree with this view. In total, 38% of the respondents agree that 10 years rebate period is sufficient but 62 % do not agree.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	18	12	30
Tax Payers	5	25	30
Column Total	23	37	60

Source: Table 5.13

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding sufficiency of 10 years tax rebate period.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding sufficiency of 10 years tax rebate period.

Test statistics: Under H_0 , the test statistic is,

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

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	20	$\frac{35 \times 23}{60} = 12.5$	6.5	42.25	3.67
(1,2)	12	$\frac{30 \times 37}{60} = 18.5$	-6.5	42.25	2.28
(2,1)	5	$\frac{30 \times 23}{60} = 11.5$	-6.5	42.25	3.67
(2,2)	25	$\frac{30 \times 37}{60} = 18.5$	6.5	42.25	2.28
					$\frac{(f_o - f_e)^2}{f_e} = 11.90$

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 11.90$$

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

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

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

Since calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding sufficiency of 10 years tax rebate period.

5.14 Opinion Regarding Required Tax Rebate Period

A supplementary question has been asked to the negative respondent of the above question. The view of the various respondents is presented below.

Table: 5.14

Alternatives (in yrs.)	Tax Experts		Tax Payers		Total
	No	%	No	%	
15	5	42	1	4	6
20	3	25	1	4	4
25	3	25	2	8	5
30	1	8	5	20	6
Others*	0	0	16	64	16
	12	100	25	100	37

Source: Opinion Survey

**Includes more than 30 years*

From the above table it is clear that most of the negative respondent tax expert opinion is that the tax rebate period should be 15 years. In opposition to the tax experts, most of the tax payers has respondent the tax rebate period should be more than 30 years.

Note : Although the questionnaire was developed on the basis of the ITA 2058 and analyzed as well, the rebate for the newly established industries(except

negative listed industries) which are operating in 22 remote districts has changed into fully exemption for 10 years by the budget speech of 2063/64.

5.15 Opinion Regarding the Industry to be Included in Special Industry

In order to know the opinion of the respondents about any industry a question "Do you know any industry that should be included in special industry but not included yet to increase the scope of tax planning?" has been asked. The respondents have to respond either in 'Yes' or 'No' answer. The responses of the various respondents are presented below.

Table: 5.15
Opinion Regarding the Industry Which Should be Included in Special Industry

Alternatives	Tax Experts		Tax Payers		Total
	No	%	No	%	
Yes	3	10	7	23	7
No	27	90	23	77	53
Total	30	100	30	100	60

Source: Opinions Survey

From the above table, it is seen that only 10% tax experts think that other industry also should be included in special industry whereas 23% percent of the tax payers have said that there are other industries which should be included in special category.

In order to know the other industries that should be included in the special industry category, a supplementary question has been asked to specify the positive respondents of the above question. Very few of them have attended the question and the responses that are given below:-

-) Tourism and its related industries
-) communication network business
-) Hydropower sector
-) Software development business
-) Agro-based Industries
-) Professional and technical educational service industries
-) Alcohol and beer industries which export the product abroad

5.16 Opinion Regarding Any Provision which is not Enough in Tax Planning

In order to know the view of the respondents about the insufficiency of the current tax provision a question, "In your view which provisions are not enough to strengthen the scope of tax planning." has been asked. Various respondents have mentioned that the following provisions are not sufficient enough to plan tax.

- 10 years tax rebate i.e. tax holidays to industries established in Various region of the country
- Tax rebate is not sufficient.
- Rate of depreciation.

5.17 Opinion Regarding Suggestions and Recommendations about Tax Incentives and Tax Planning in Nepal

In order to know the suggestions and recommendations of the various respondents about tax incentives and tax planning in Nepal , an open question, "what are your suggestions and recommendations regarding tax incentives and tax planning in Nepal?" has been asked. The suggestions and recommendations given by the various respondents are presented below.

- Tax administrators should encourage tax planning instead of discouraging.
- Provisions of income tax Act must be clear with regard to tax planning.
- Except some provisions, such as only 10 years tax rebate, the tax incentives provided by ITA 2058 are sufficient. Tax planning culture should be made which requires professionalism in tax related matter which is lacking in Nepal.
- Tax personnel should be honest in their work, they should not encourage tax evasion and tax avoidance and tax payer also should be honest and responsible on their tax liabilities.
- Tax Act should be clear and easier to understand. So, each industrialist can understand the tax incentives easily and can plan tax, using these incentives.
- Government should encourage the tax planning scheme, because these are the facilities extended by the law to the assessee.
- Culture of tax planning should be made.
- Tax evasion and tax avoidance should be discouraged and punished.
- Professionalism should be increased in tax planning.
- Tax act and rules shouldn't be changed frequently. Government should motivate the industries and should also spread the knowledge about tax incentives and facilities. Government should provide tax awareness training and should produce various documents related to tax.
- Should be educated the entrepreneurs about tax planning i.e. tax incentives, tax awareness, tax facilities.
- Minimize the tax rate and widen the coverage of tax.
- Tax planning is helpful for industrial investment but major considerations are stable government policy and creation of industrial environment. If these requirements are fulfilled, whatever incentives and facilities provided by ITA seems some how sufficient.
- Tax incentives and facilities to be provided in the new horizons, fields and areas of the Nepalese economy.

- Lowering tax rates for banking, insurance and financial institutions in order to boost up foreign investment.

5.18 Major Findings

Followings are the major findings of the opinion survey conducted with the tax experts and the taxpayers of the industrialist.

- 1) The incentives and facilities provided by ITA are seems to be sufficient.
- 2) Tax planning is a tool of reducing financial burden. The industrialist can understand the term tax planning and they imagine that tax planning minimizes the tax amount or tax burden to be paid to government. It also signifies that various industrial organization have planned tax.
- 3) Sufficient scope of tax planning is not provided by Present ITA.
- 4) Tax incentives and tax planning are closely related each other and they have positive correlation because tax incentive encourages tax planning
- 5) Additional tax incentives are required to increase the scope of tax planning. To encourage export industries, to highlight the agro based industries; to stabilize the tourism industries further incentives are needed.
- 6) The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded, e.g. tax rebate, tax holidays, financial reward, loan facilities, etc.
- 7) The most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is people are unaware about tax planning then tax planning is lengthy and costly and so on.
- 8) There are lots of difficulties to plan tax because of complicated or impractical tax incentives. They are:-

-) ITA 2058 has no clear provision regarding tax planning.
 -) To derive actual deductible pollution control cost and R&D cost is difficult. Complexity in calculation has made it impractical.
 -) The rebate period of 10 years is seems to be impractical because the actual benefit from the short rebate period is less than the opportunity cost.
 -) Tax management and administration.
 -) Tax planner feels impractical tax benefits, tax concessions, etc.
- 9) Current tax incentive is not enough helpful to plan tax.
- 10) There is different argument of the respondents about the view of the facilities and incentives that have initiated enough to invest in rural areas of Nepal in respect to plan tax. Fifty percent of the respondents think that there are sufficient facilities to invest in the rural areas and rest think not enough.
- 11) In the Nepalese industries, neither tax is not planned at all nor planned extremely.
- 12) 10 years tax rebate is not sufficient to increase the scope of tax planning in the remote area for the special industries.
- 13) Tax concession of 20%, 25% and 30% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient and it should be increased to 30%, 50% and 100% respectively.
- 14) Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.

- 15) 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.

CHAPTER VI

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 Summary

Revenue is the lifeblood of any state and tax is one of the most important income sources of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also regulates all the business organizations. To reduce the poverty of country, it is very compulsory to grow up the industries. Up to now, Nepal is following traditional agriculture based industry and other disciplines have very low contribution to GDP. Industrialization is fundamental need to develop the country, for this purpose tax system should be practical and effective. Tax system should be initiative to establish new industry and facilitative to continue the business for long term. Tax shouldn't be as a financial burden to the people imposed by the state. It should feel as a moral responsibility and prestigious task.

In the developing country, such as Nepal if the government doesn't play vital role to establish the new industry it seems to be impossible because of high risk and low chance to grow up. Nepal has very few of big industries and little more of cottage and small industries. Due to lack of encouraging law and act of government new industries are not establishing and old also are not running well.

It is necessary to develop industries to increase the economic status of the country. For the expansion of industries, conducive environment is necessary to attract the industries. Government needs to provide such environment. Various incentives and subsidies should be provided to the investors. Those incentives encourages in the establishment of new industries

and operation of existing industries. Among the various incentives, income tax incentive is also a major one to attract the investors.

Nepal has been practicing various tax incentives programs but still the industrialization process is very slow. As previous acts, the Income Tax Act (ITA) 2058 has provided various tax incentives and facilities to industries to attract the investment. However, the number of new industries is very poor. Only 46 new industries in first eight months of FY 2003/04 are approved for foreign investment. Out of them, only 13 are for the industrial production. (Economic Survey; 2003/04)

A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Especially, the direct tax is a burden to the taxpayer because it is not shift able. Since it is painful, every one wants to reduce the tax liabilities as far as possible. Planning is the way of making systematic and easy of any task previously. So, tax incentives are the main factors to encourage or promote tax planning and ultimately to promote the business and the industries of any country.

Various books, articles, dissertations and other reference materials are reviewed in the course of this study. Almost all of the books are of descriptive in nature and fully based on the course of various level of syllabus. No one has studied in the incentives and facilities and its impact on tax planning under ITA 2058 to industries. So, the researcher has selected the unique topic to study.

Various incentives of the income tax to industries have been studied to find out the impact of these incentives on tax planning to the industries. Meaning of tax, classification of taxes, merits and demerits of both direct and indirect taxes, heads of incomes, concept of tax incentive and facilities, concept, feature, scope of tax planning etc. have been studied in Conceptual Framework of this study.

Mostly this study is based on primary data and very few of secondary data has been used in this study. Minimum use of secondary data is due to the unavailability of related material in secondary sources. The primary data is based on opinion survey of various two groups viz. tax experts and taxpayers. Tax experts consist of Chartered Accountants, Lawyers, Policy makers at Ministry of Finance and Professors and Readers of university. Taxpayers include finance officers, accountant, managers and tax officers of various industries. A set of questionnaire has been developed and 75 questionnaires have been distributed to various respondents. Among them, 30 from the group of exports and 30 from taxpayers has been collected. Statistical tools like simple average; percentage, correlation and chi-square test for hypothesis have been used in this study to analyze and interpreted the various data collected.

Summary and conclusions regarding this study have been presented in this chapter. Some useful recommendations have been given in the last chapter, which are very much useful to the tax policy makers, industrialists and general public, too.

Finally, this study has been completed with the achievement of the various objectives stated.

6.2 Conclusion

Some conclusions have been drawn on the basis of opinion survey, personal interview at the time of opinion survey and other studies. These are presented below.

- I. However the incentives and facilities are provided by ITA are seems to be sufficient, some intensive programs should be brought to aware and sensitize the tax payers.
- II. Tax planning is a tool of reducing financial burden, tax avoidance and tax evasion.

- III. However sufficient tax incentives seems to be provided further incentives is desired present ITA. Additional tax incentives are required to increase the scope of tax planning. To encourage export industries, to highlight the agro based industries; to stabilize the tourism industries further incentives are needed.
- IV. Tax incentives and tax planning are closely related each other and they have positive correlation because tax incentive encourages tax planning.
- V. The most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is people are unaware about tax planning then tax planning is lengthy and costly and so on.
- VI. ITA 2058 has no clear provision in all aspect of tax planning. So, there are lots of difficulties to plan tax.
- VII. Although rural area is addressed by the tax incentives and facilities but still it is not seems to be sufficient to invest in rural areas of Nepal in respect to plan tax
- VIII. Tax planning terms is in practice in Nepalese industries but it simply means to reduce tax amount to be paid to the government. It can be tax avoidance, tax evasion or any way, to minimize tax burden.
- IX. 10 years tax rebate is not sufficient to increase the scope of tax planning in the remote area for the special industries.
- X. Tax concession of 20%, 25% and 30% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient
- XI. There are much more difficulties to implement tax planning in Nepal. The causes are not friendly tax administration, insufficient tax incentives and facilities and difficult terms of tax act that are rarely understood by the general people.
- XII. There are other industries that should be included into the special industries Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.

- XIII. 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.
- XIV. In the conclusion, tax incentives are the fundamental elements to maximize the practice of tax planning. It can also be said that tax planning can't be imagined without tax incentives. However tax is not an important factor for the industrial growth, it plays vital role to initiate the industrialists for the entrepreneurship practice.

6.3 Recommendations

On the basis of opinion survey, personal interview at the time of opinion survey and other studies some measures regarding tax incentive and its impact on tax planning related to industrial sector of Nepal under ITA 2058 have been recommended, which are as follows:

1. Tax incentives and facilities should be provided in the new horizons fields and areas of the Nepalese economy.
2. Tax rates should be reduced for banking, insurance and financial institutions in order to boost up foreign investment.
3. Government should recognize the tax planning scheme lunched by the assessee. They are to be encouraged to maintain financial books of account. Different tax rate should be applied considering the nature, life of business, so that businessman can choose the business which he prefers.
4. Like in individual income, there should allow two slabs in tax rate to business organization also.
5. To maximize the scope of tax planning, tax personnel and tax payers should be honest; government should encourage the tax planning scheme, because these are the facilities extended by the law to the assessee.

6. Tax planning is not a new term for the business organizations of Nepal but because of knowledge lacking, and unhealthy practice of tax evasion and tax avoidance it is not functioning as desired. So, effective guideline, orientations, and co-operation should be provided by the authorities.
7. The terms that are used in ITA are very complex and confusing. So, the terms should direct clear vision, clear-cut language should be used in the act i.e. common people can understand the tax incentives and facilities provided by the ITA.
8. The main constraint for tax planning is the behaviors of tax administrator. Tax payers expect co-operation and good guidance from tax administration but the tax administration is not like that. So, tax administration should be more liberal and co-operative that reduces tax avoidance and tax evasion.
9. Tourism and its related industries, communication network business, hydropower sector, software development business, agrobased industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.
10. Tax concession of 20%, 25% and 30% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient and it should be increased to 30%, 50% and 100% respectively.
11. 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.
12. In one way, tax planning is a way of maximum utilizing the tax incentives and tax facilities provided by the ITA and reducing tax burden. By other way it is an element to empower industrial practice. So, tax incentives should be recommended to increase and also recommended to raise the tax planning practice.

Note : Although all the assumptions are based on the ITA 2058 and analyzed as well, the rebate for the newly established industries(except negative listed industries) which are operating in 22 remote districts has changed into fully exemption for 10 years by the budget speech of 2063/64.

BIBLIOGRAPHY

Dissertations:

- Acharya, Sanjaya (1994). **Income Tax in Nepal, a Study of its Structure, Productivity and Problem.** Central Department of Economics, M.A. Dissertation, T.U.
- Baral, Shanti (1989). **Income Tax in Tax Structure of Nepal.** Central Department of Economics, M.A. Dissertation, T.U.
- Bhandari, Hari Bahadur (1994). **Contribution of Income Tax to The Economic Development of Nepal.** Central Department of Management, M.B.A. Dissertation, T.U.
- Bhattarai Manidev (2050B.S.), **"Income tax facilities provided by Industrial Enterprises Act 2049"**
- Bhattarai, Raj Kumar (1997). **Effectiveness of Corporate Income Tax in Nepal.** Shanker Dev Campus, M.B.A. Dissertation, T.U.
- Dahal, Tanka Nidhi (2005). **Tax Management in Nepal.** Central Department of Management M.B.S., T.U.
- Kayastha, Narendra Lal (1974). **Taxation of Income and Property in Nepal.** Central Department of Economics, M.A. Dissertation, T.U.
- Kharel, Shree Krishna, 1996, **Self Tax-Assessment Under the Income Tax Act in Nepal,** MBA Dissertation, TU
- Koirala, Deepak (1985). **Tax Incentives and industrialization.** Central Department of Economics, M.A. Dissertation, T.U.
- Koirala, Girija Prasad (2004). **Contribution of Employment Income to Income Tax Revenue in Nepal.** Shanker Dev Campus, M.B.S. Dissertation, T.U.
- Nepal, Naina (1983). **A Study of Problem and Prospects of Income Tax in Nepal.** Central Department of Economics, M.A. Dissertation, T.U.

- Neupane, Rishi Ram (2005). **Income Tax as an Internal Source of Resource Mobilization in Nepal**. Central Department of Management, M.B.S., T.U.
- Pallimagar, Dan Bahadur (2003). **Income Tax in Nepal: A Study of Exemption and Deduction**. Shanker Dev Campus, M.B.S. Dissertation, T.U.
- Pandey, Kedar Bilash (1978). **An analysis of Income Tax in Nepal**. Central Department of Economics, M.A. Dissertation, T.U.
- Pant, Parmeswor (1996). **A Study on Income Tax Management in Nepal**. Central Department of Management, M.B.A. Dissertation, T.U.
- Poudyal, Karna Bir (1998). **Corporate Tax Planning in Nepal**. Central Department of Management, Ph. D. Dissertation, T. U.
- Pradhan, Bibha (2001). **Contribution of Income Tax From Public Enterprises to Public Revenue of Nepal**. Shanker Dev Campus, M.B.A. Dissertation, T.U.
- Regmi, Shambhu Nath (1986). **The Role of Income Tax in Nepal**. Central Department of Economics, M.A. Dissertation, T.U.
- Shingh, Basanta Kumar (2002). **A study on application of best judgement on income tax assessment with reference to income tax act 1974**. Shanker Dev Campus, M.B.A. Dissertation, T.U.
- Shrestha, Binita (2001). **Revenue Collection From Income Tax in Nepal, Problems and Prospects**. Shanker Dev Campus, M.B.A. Dissertation, T.U.
- Shrestha, Roshani (1984). **Income Tax in Nepal**, MA economics, TU
- Siwakoti, Chundamani (1987). **Analytical study of Income Tax in Nepal**. Central Department of Management, M.B.A. Dissertation, T.U.
- Suwal, Rosalin Singh (1981). **Income Tax System in Nepal**. Central Department of Economics, M.A. Dissertation, T.U.
- Thapa, Ram Bahadur (1993). **Income Tax Assessment Procedure in Nepal, an Analytical Study**. Central Department of Management, M.B.A. Dissertation, T.U.

Timalsina, Krishna Prasad (1997). **Tax Structure of Bajhang District With Refernce to National Tax Structure of Nepal.** Central Department of Management, M.A. Dissertation, T.U.

Tripathee, Daya Raj (1995). **Income Tax System in Nepal and Some Potential Areas to Reform.** Shanker Dev Campus, M.B.A. Dissertation, T.U.

Books:

Adhikari, Chandra Mani (2003). **Modern Taxation in Nepal: Theory and Practice.** Kathmandu: Pairavi Prakasan.

Agrawal, jagadish (2004). **Income tax; theory and practice** Kathamandu: Buddha Academic Publishers and Distributors

Amatya, Surendra Keshar, (2060). **Taxation in Nepal (1st edition).** Kathmandu: Bhundipuram Prakasan.

Bhttarai, Ishwor and Girija Prasad Koirala (2060). **Tax Laws and Tax Planning. (1st edition).** Kathmandu: Dhaulagiri Books and Stationaries.

Bhattarai, Ishwor and Girija Prasad Koirala (2003). **Taxation in Nepal (1st edition).** Kathmandu: Dhaulagiri Books and Stationaries

Dhakal, Kamal Deep (2001). **Income Tax and House and Compound Tax: Law and Practice (2nd edition).** Kathmandu: Kamal Prakashan.

Kandel, Puspa Raj (2001). **Corporate Taxation: Issues in Nepalese Perspective.** Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Kandel, Puspa Raj (2003). **Tax Laws and Tax Planning.** Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Khandka, Rup Bahadur, (1994). **Nepalese Taxation: A Path for Reform,** Marburg, Marburg Consult for self-help Promotion.

Lal, B.B. (1992). **Direct Taxes, Income Tax, Wealth Tax, Gift Tax and Tax Planning (14th revised addition).** New Delhi: Konark Publication Pvt. Ltd.

- Marahatta, Surya Prasad and Anada Prasad Khatiwoda (1970).
Fundamental of Nepalese Income Tax With up to date Financial Directives and Regulations.
- Mallik, Bidhyadhar (2003). **Nepalko Adhunik Aayakar Pranali (1st edition)** Kathmandu: Mrs. Anita Mallik.
- Poudel, Karna Bir (1998). **Corporate Tax Planning, Pokhara : Mrs. Sita Poudel.**
- Poudel, Santosh Raj (1993). **Income Tax Law and Practice** Kathmandu: Athrai Enterprises.
- Pradhananga, Nagendra Bahadur (1993). **Income Tax Law and Accounting.** Kathmandu: Atharai Enterprises.
- Prasad, Bhagawati (1996). **Direct Taxes (Law and Practice) (30th addition).** New Delhi : Wishwa Prakashan.
- Tiwari, Narayan Raj (1999). **Income Tax System in Nepal.** Kathmandu: Pairavi Prakashan (In Nepal).

HMG Publications:

- HMG/Nepal **Economic Survey 2004/05.** Ministry of Finance.
- HMG/Nepal **Finance Ordinance, 2060.** Ministry of Law, Justice and Parliamentary Affairs.
- HMG/Nepal **Finance Ordinance, 2061.** Ministry of Law, Justice and Parliamentary Affairs
- HMG/Nepal. **Income Tax Act, 2058.** Ministry of Law, Justice and Parliamentary Affairs.
- HMG/Nepal. **Income Tax Rules, 2059.** Ministry of Law, Justice and Parliamentary Affairs.

Reports/Articles:

Agrawal, Govinda Ram (1978). **Resource Mobilization for Development: The Reform of Income Tax in Nepal.** Kathmandu, CEDA, T.U.

Agrawal, Govinda Ram (1980). **Direct Tax Reform in Nepal.** Ministry of Finance

Agrawal, Govinda Ram (1984). **Revenue Mobilization in Nepal.** Kathmandu, CEDA, T.U.

Kayastha, Narendra Lal (1993). **Problems and Prospects of Resource Mobilization Through Direct Taxation in Nepal.** Rajaswa, Revenue Administration Training Center Volume-1, Kathmandu.

Lent, George E.(1968). **Resource Mobilization for Development; The Reform of Income Tax in Nepal,** Reported to IMF.

APPENDIX

LIST OF RESPONDENTS

Tax Experts:

- | | |
|-------------------------------|--|
| 1. Bimal Sapkota | IRD Officer, Lalitpur |
| 2. C.P. Niraula | Auditor Office, Lalitpur |
| 3. Gyanendra Rimal | Account Officer (Pension Office) |
| 4. Jagdish Surana | Advocate, Supreme court |
| 5. Prem Singh Dhami | Advocate |
| 6. Dharma Singh Karki | Advocate |
| 7. Ramesh Maharjan | Advocate |
| 8. Ramesh Karki | Advocate |
| 9. Hari Budhathoki | Advocate |
| 10. Matrika Niraula | Advocate |
| 11. Mahendra Man Shrestha | IRD Officer, Lalitpur |
| 12. Navaraj Bhandari | IRD Officer, Lalitpur |
| 13. Nirmal Kumar Siwakoti | IRD Officer, Lalitpur |
| 14. Kum Prasad Chudal | IRD Officer, Lalitpur |
| 15. Ram Sharan Pudashani | IRD Officer, Lalitpur |
| 16. Santosh Niraula | Charter Accountant |
| 17. Depak Poudel | Charter Accountant |
| 18. Man Singh Ghishing | Charter Accountant |
| 19. Narayan Acharya | IRD Officer, Lalitpur |
| 20. Surendra Aryal | IRD Officer, Lalitpur |
| 21. Lal Bahadur Khatri | IRD Officer, Lalitpur |
| 22. Kabi Raj Poudyal | IRD Officer, Lalitpur |
| 23. Padmanav Shingh Karki | Team Leader, Revenue
Administration Support Project |
| 24. Ram Hari Aryal | WTO Section, MICS |
| 25. D.D. Bhatta | Section Officer, Revenue Division,
MOF |
| 26. Mr. Bisnu Prasad Nepal | Chief Tax Officer, IRD-1 |
| 27. Kedar Man Shingh Shrestha | Senior Tax Expert, Revenue
Department, FNCCI |
| 28. Lawa Raj Thapa | Tax Officer, IRD-1 |
| 29. Sunil Man Shakya | Advocate |
| 30. Sunil Acharya | Advocate |

Tax Payers:

1. Mira Shrestha Chief Accountant (Aakash Plastic Industries, Lalitpur)
2. Badri Tandukar Chief Accountant (Mahabaudha Silpa Bhandar, Lalitpur)
3. Uttam Bilas Panta Senior Account (Structo Nepal Pvt. Ltd., Lalitpur)
4. Harshit Mishra Senior Account (Sanghai Plastic Industries Pvt. Ltd., Lalitpur)
5. Chandra Lal Shrestha Managing Director (Nepal Organo Rubber Factory, BID, Kathmandu)
6. Anil Man Shrestha Chief Accountant (Power Tec. Nepal, Lalitpur)
7. Radhashyam Agrawal Chief Accountant (Gopi Textile)
8. Santosh Niraula Lama Construction
9. Pesal Poudyal S.S. Textile, Lalitpur
10. Keshav Sharma Niroula Account Officer, Dairy Development Corporation, Balaju
11. Madhav Khadka Finance Advisor, JK Garment Ind., Jorpati, KTM
12. Sundar Lal Shrestha Senior Finance Officer, Bottlers Terai Ltd.
13. Khem Sharma Accountant, NP Rug Industries, Boudha, Kathamandu
14. Ramjee Lal Shrestha Assistant Accounting Manager, Royal Drugs Limited.
15. Purushottam Mainali Senior Finance Officer, Panchakanya Group
16. S.K. Ghimire Accountant Officer, Dairy Development Corporation, Lainchour
17. Jawahar M. Bajracharya Senior Planning Officer, Herbs Production and Processing Co. Ltd.
18. Bidur Karki Finance Manager, Himalayan snacks and Noodles Pvt. Ltd.
19. Deepak Raj Jhoshi Tax Advisor, TNP Carpet Ind., Jorpati, KTM
20. Dhan Bahadur Tamang Managing Director, Finance Department Paradise, Carpet Industries Pvt. Ltd.
21. Youba Raj Dahal Finance and Tax Auditor, Himalayan Rug Industries, Bouddha, KTM
22. Dipak Kumar Chudal Finance Advertiser, TNP Carpet Industries Pvt. Ltd.
23. Ram Bali Shah Account Officer, Nebico Biscuit Industries
24. Binod Bhattarai Chief Accountant, TNR Carpet Ind., Jorpati, KTM
25. Ram Kumar Thapa Account Officer, Nepal Gas, Balaju
26. Shankar Khatri Internal Auditor, Everest Rosin & Turpentine, Jorpati, KTM
27. Subash Jha Tax Officer, Nepal Cold Store, Balaju
28. Suresh Kumar Chhetri Accountant, Nepal Metal Industries, Balaju, KTM
29. Mahesh Raj Panta Legal Adviser, Gold Star Nepal (Pvt.) Ltd. Narad Ghimire Manager, Ghimire Furniture Udyog,