

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The Nepalese economy is an agro based developing economy. The agriculture sectors provide employment to nearly above 68% of total population. The output per head in the agriculture sector is very low in comparison to that of developed countries. The balance of payment is not positive. In every year imports of goods is higher than exports of goods. It has also been commonly know that the gap between expenditure and revenue that is called as "resource gap" is increasing in each year. Therefore the resource gap has been a serious bottleneck, in the process of economic development of developing countries like Nepal. Therefore to raise government revenue, it is necessary to raise it's source of government revenue.

Among the various sources of revenue tax is the most important source of government revenue. Now days, the prime concern of every nation of the world is rapid economic development and Nepal is no exception to this ever- continuing process aimed at the betterment of her people. Capital plays a vital role in the economic development program to solve the various socio- economic problems (Kandel, 2007).

The constitution of Nepal has clearly directed Nepalese government for a self reliant economic system, encouragement to national enterprises. Prevention of economy exploitation as well as upgrading the standard of the people. For self reliant economic system and sound

infrastructure for the development, the government should generate sufficient government revenue.

Income tax is charged on person's Income. It is common belief that income in excess of a person's minimum requirement for his/ her living should be taxed. Therefore, income tax should not be levied up to an income required to meet the general expenditure to maintain the living standard of an individual on family. This minimum level of income is also called subsistence level of income. The subsistence level socio-economic factors.

The developing countries of the world are facing a serious problem of discrepancy between the resource mobilization and expenditure policies of their government. Nepal is not an exception. It is due to the rapid increase in government expenditure as compared to revenue from internal sources. Internal sources have no designation towards the third party and is less risky compared to the external fund. The government is not obliged to pay back the fund and only has to look the needs of its economy and the interest of its resident while mobilizing internal resources. It is the best sources to fund the development activities and can play a vital role in developing countries, which are facing difficulties on raising fund from internal sources .It is seen that developing countries having low per- capita income highly depend on the indirect tax than direct tax. The share of income tax is much low tax paying capacity due to low level of income of the resident (Bhattraï and Koirala, 2008).

The developing countries like Nepal are in need of huge capital investment of development purpose. The government has to make heavy spending on the social overheads in which the private sectors is not willing to invest. Despite infrastructure development, the government

also has the need to run several development projects. The expenditure required to fund these development activities could be obtained from two sources external and internal. The external financing depends upon the interest and the condition of the funding countries to the funding organs and no discretions can be used to spend the fund available (Dahal and Manandhar, 2007).

The present study has been designed to a study contribution of insurance business on income tax to government revenue of Nepal. The primary function and field of the insurance company will be to provide the insurance against the uncertainties inherent on the society Individual life or in the business risk everywhere. Growing industry sector like Nepal may face more perils and disaster, losses than other developing countries. Therefore insurance becoming popular now a days. To get the indemnity of heavy risk insurance contract in done. In the modern world it is impossible to side the insurance sector from society. Nepalese organized insurance has very short history despite of beings existence of community insurance since primitive era. Society used to compensate the victim contributing as their capacity of all member of society. In Nepal after fifty's insurance companies were established. In Rana Regime, United Insurance, Oriental Insurance and so like Indian companies were insuring Nepalese people and their business. After democracy established in 1950, the concept of Nepalese insurance companies was made by government. In initiation and investment of Nepal Bank Limited in B.S 2004, insurance companies were established in Nepal. After that a branch office of Oriental Insurance Company of India was established in Nepal. Later, in 2024, Rastriya Beema Sansthan was established which started its life business in 2029B.S.

Scenario of the Existing Insurance Companies in Nepal (2011)

Table: 1.1

Insurance Companies

	Name of company	Establishment Data	Life /General Insurance
1.	Nepal Insurance co. Ltd.	2004/6/8	General Insurance.
2.	The oriental Insurance co.Ltd.	2024/5/30	Branch of the oriental Insurance co. Ltd. translating General Insurance
3.	Raystriya Beema Sansthan.	2025/9/1	Government owned corporation translating Life and General Insurance.
4.	National Insurance co. Ltd.	2030/9/17	Branch of the National Insurance co. Ltd. India translating General Insurance.
5.	National life Insurance co.Ltd.	2044/9/23	Life Insurance.
6.	Himalayan Insurance co. Ltd.	2050/4/6	General Insurance.
7.	United Insurance co.(Nepal) Ltd.	2050/7/6	General Insurance
8.	Premier Insurance co. Ltd.	2051/1/8	General Insurance.
9.	Everest Insurance co. Ltd.	2051/2/17	General Insurance.
10.	Neco Insurance co. Ltd.	2053/2/17	General Insurance.
11.	Sagarmatha Insurance co. Ltd.	2053/3/12	General Insurance.
12.	Alliance Insurance co. Ltd.	2053/4/4	General Insurance.

13.	NB Insurance co. Ltd.	2057/10/20	General Insurance.
14.	Nepal Life Insurance co. Ltd.	2058/1/4	Life Insurance.
15.	American Life Insurance co. Ltd.	2058/4/18	Branch of the American Life Insurance company USA, translating Life Insurance.
16.	Life Insurance corporation Nepal Ltd.	2058/4/23	Life Insurance.
17.	Prudential Insurance co. Ltd.	2059/1/20	General Insurance.
18.	Shikhar Insurance co. Ltd.	2061/7/2	General Insurance.
19.	Lumbini General Insurance co. Ltd.	2062/3/31	General Insurance.
20.	NLG Insurance co. Ltd.	2062/6/23	General Insurance.
21.	Siddhartha Insurance Limited.	2062/12/23	General Insurance.
22.	Asian Life Insurance Co Ltd.	2064/11/5	Life Insurance.
23.	Surya Life Insurance Co Ltd.	2064/12/6	Life Insurance.
24.	Gurans Life Insurance Co Ltd.	2064/12/18	Life Insurance.
25.	Prime Life Insurance Co-Ltd	2065/1/24	Life Insurance.

Source: Annual Report of Insurance Board (2066/067)

Tax revenue through insurance business is one of the good internal sources of government revenue. Insurance business is the burning service business all over the world. Nepalese government also has known its value to economic development. So government has adopted policy and strategy for the

development, improvement and expansion of insurance business. It is fact that smooth operation of any economic activities with out the provision of insurance can not be possible. Insurance business generates employment, income and revenue. It explores reinvestment opportunities. The insurance sector has not only attracted the attention of foreign investor but also Nepalese insurance business is accessible to foreign insurance market, after the membership of WTO. Therefore, insurance business could be one important source of government revenue (Annual reports of Insurance Board).

By mid march 2010 altogether thee were 25 Insurance companies in operation established under the Insurance Act 1992. There are 8 life insurance companies, 16 non life Insurance companies and one company dealing with both life and non life. Insurance. From the prospective to ownership 3 insurance companies are operating with full foreign capital investment while 3 of them are operating as joint capital venture of foreign Insurance companies. Similarly 18 companies are under private ownership and the government of Nepal owns one Insurance company. Total assas / liabilities of these. Total assas/ liabilities of these insurance companies increase by 17.2 percent to Rs 37.010 million by mid -july 2009, which has realize Rs 40800 million with 10.2 percent increase by mid-January 2010 (Economic Survey, 2009/010).

1.2 Statement of the Problem

Nepal has been facing serious problem of resources gap and high dependency on foreign loan and donation. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To meet the growing national expenditure, government manages its funds from internal sources and external sources such external sources are uncertain, inconvenient and not good for a healthy development in case of high dependency. But internal sources of

revenue constitute tax and non tax revenue. The examples of tax revenue are fees, royalty administrative and business income etc. tax revenue is the important source of government revenue. Taxation is regarded as an effective instrument. It monitors various economic activities of a country, custom duty excise, value added tax, corporate and personal income tax are the example of source of tax revenue. Amount collected through taxation is spent for common interest of the people (Economic Surry, 2009/10).

Now, insurance business is growing up in Nepal and it is burning business because of privatization, liberalization and globalization. Insurance companies constitute one of the most important components of financial structure. They play dual role in the economy safeguard the insured against the risk of the losses of life and property and intermediate scarce resources. In spite of its significant role as an agent for safeguarding against the risks and intermediating funds, the evaluation has not been done yet in Nepal. In order to systemize regulaize, develop and regulate the insurance business, we have to evaluate the contribution of this sector on income tax to government revenue. The study deals with following issues.

- a. How have insurance companies been contributing to income tax revenue in Nepal ?
- b. Is Present income tax system of Nepal effective ?
- c. How has present income tax system influenced insurance business in Nepal?

1.3 Objectives of the Study

This study has been carried out with some objectives. The main objective of the study is to analyze the effectiveness of insurance business to generate income tax revenue in Nepal. The specific objectives of the study are as follows:

- a) To analyze the contribution of from insurance Business to GDP.
- b) To examine the effectiveness of income tax administration in Nepal.
- c) To suggest to insurance income tax from insurance business in Nepal.

1.4 Focus of the Study

The main focus of the study is to analyze the contribution of insurance industry to gross domestic product and government revenue, income tax, total tax revenue, direct tax and corporate tax from private bodies and tax structure of insurance business.

1.5 Significant of Study

In Nepal, resources mobilization is still poor that does not cover the requirements. Nepal has been facing serious problem of resource gap and high dependency on foreign aid. Concept of foreign aid has been changed to foreign direct investment and foreign trade. Therefore, Nepal has to emphasis to the service business to attract foreign direct investment. Insurance business can help to fulfill the resource gap through tax revenue to government. The study evaluates

the contribution of tax revenue to government by insurance business. The importance of this study could be providing guideline for government insurance business and researcher.

To Government- Nepal has been facing serious problems of resources gap and high dependency of foreign loan. Insurance sector can help to fulfill the resources gap through income tax form insurance business as government revenue.

To Insurance companies –The study evaluates the contribution of tax paid by the insurances companies to government. It is helpful to make better policy and tax system for insurance companies.

To Researcher- This study would be help for those researchers who were looking for to the impact of the contribution of tax in the government revenue.

1.6 Limitation of the Study

This study is mainly concerned on contribution of insurance business on income tax in Nepal. It is not a complete study of income tax system of Nepal. So the limitation of the study is as follows:

- I) The study focuses only on the contribution of insurance business from the viewpoint of income tax.
- II) The study is based on the availability of reliable data and literature.
- III) The study has ignored all other factors than financial factors.
- IV) Data used in this study is primary as well as secondary data. But primary data is collected only from Katmandu valley.

1.7 Organization of the Study

Every study should be prepared in a specific format and style .The style and format has been utilized as like senior researchers. This study has been divided in to five major chapters.

Chapter - One: Introduction

Chapter – Two: Review of literature

Chapter – Three: Research methodology

Chapter – Four: Data presentation and analysis.

Chapter – Five: Summary, conclusion and recommendation.

The first chapter gives some information about general background of study, introduction about tax, brief history of insurance, limitation, and statement of problems, objectives of the study, importance and organization of the study.

The second chapter is about literature review related to books, previous thesis, articles. Core literature in the subject matter is presented in this chapter.

The third chapter is about how research is performed i.e. the methodology of research, tools of research, data collection procedure and types of data which are presented there.

The fourth chapter is related to data presentation and analysis, which is the core part of this study. Available data and information are processed using different tools and techniques for getting results findings.

The fifth chapter is about summary, conclusion and recommendations.

At the end of the study bibliography, appendices and curriculum vitae have also been incorporated.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework Related to Insurance Business

2.1.1 Concept of Insurance

It is quite hard to define insurance which satisfy every viewpoint of insurance. Insurance may be defined as a system of combining many loss exposures, with the cost of the losses being shared by all of participants" (Crane,1980:8). It may be an economic system of reducing the risk through transfer and pooling the losses. A legal method of transferring risk in a contract of indemnity, a business institution providing many jobs in a free enterprise economy a social device in which the losses of few are paid by many, or an actuarial system of applied in mathematics" (Bickelhupt,1983). Some generic term insurance is regarded as "cooperative risk carrying." "Transfer of specializing risk carrying". "Re-distribution of actual loss" etc. "As a business institution. Insurance has been defined as a plan by which large no of people associate themselves and transfer to the shoulder of all, risk that to an individual (H Mage, 1959:2) Insurance a device for handing risk will include the transfer aspect of risk as well as control aspect of risk in some extent and can be regarded as risk handing device, which deals with risk control. And financing viz. reducing uncertainties appearing due to risk class and providing planned financing technique.

Insurance as a tool of risk management is often misleading concept. "The word insurance some times is applied to a fund

accumulated to meet certain losses, as well as to a simple transfer of risk. But the accumulated definition of insurance must include either accumulation of fund or the transfer of risk but not necessarily both (Mehr, 1986:37). In practice, insurance involves, spreading loss over more than one entity with in a present period. In fact "Insurance distributed the cost of the risk over a large group of individuals subjected to the some risk in order to reimburse the few who actually suffer from risk"(Ackerman, 1951:3).

Insurance more formally as well as from institutional viewpoint, is regarded as cooperative risk transferring device expressed as contractual agreement between to parties i.e. insurance and insured where insured will be the party desiring security against certain unpredictable loss upon the economic aspect of life or the property and liability and insurer will be the party willing to provided assurance or insurance to the insured against some specific cost i.e. the premium for the desire of some benefits i. e. surplus. It will be a risk transfer agreement under which a insurer agrees to accept financial burden from loss. Thus it can be said that insurance is multi fasted matter. Insurance for the insured will be risk financing as well as controlling tool. Where as for insurer it will be the legal business arising from contractual agreement of handing risk on behalf of others against some benefit.

2.1.2 Importance of the Insurance

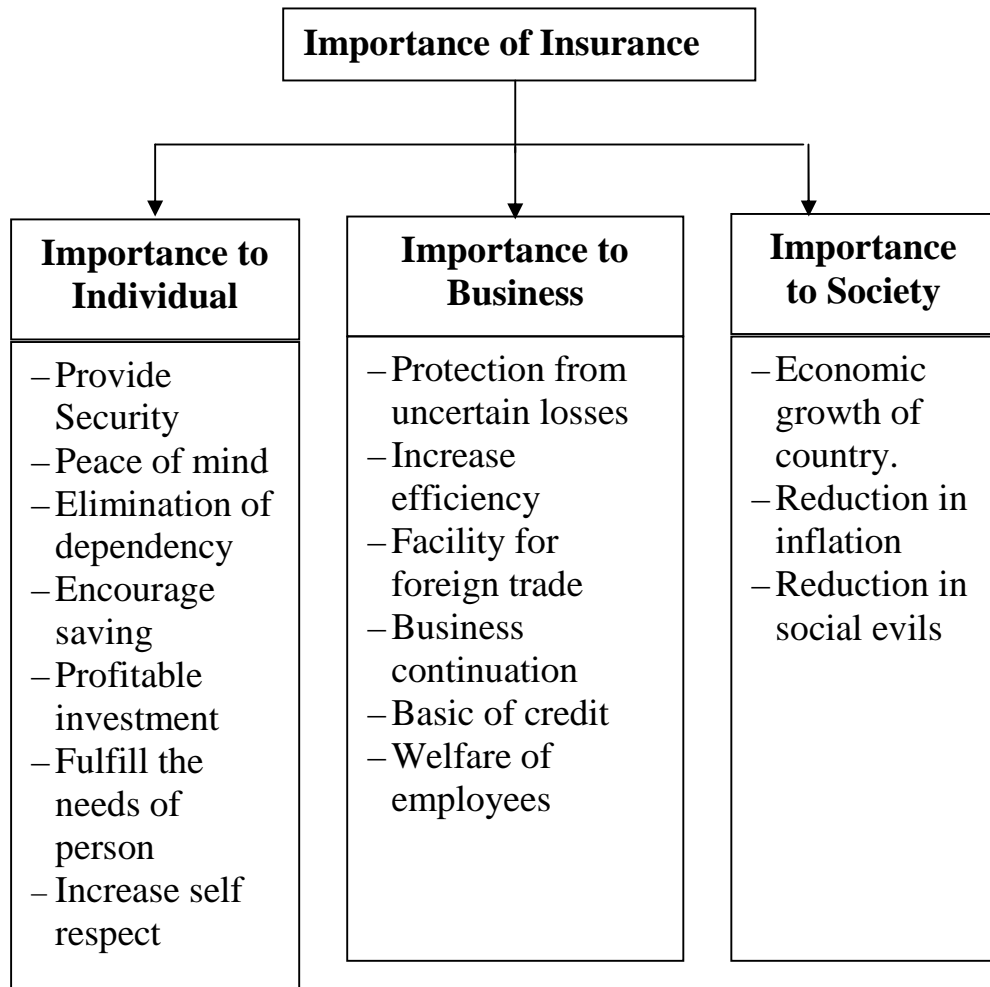
Insurance contributes to society by favorably affecting the apportionments of factor of production, engaging in loss prevention activities, Indemnifying losses, serving as a basis of the credit structure, eliminating worry and providing a channel for Invest able funds Robert I. Mehr and Emerson Commack outlined the insurance, as insurance

policy is written by business organization called "Insurer". In order to function properly there Insurance must have large number policy holders, who are obtained either by direct representation or through agent (Robert and Emerson, 1972:12).

He again stated "Insurance" is a technical business involving the skills of statisticians, financial analysis, engineers, physicians, economist, lawyers and others. Contracts must be drafted, under writing restriction must be determined, rates must equitably established and funds must be prudently. Invested since insurance is affected with the public interest, it is closely regulated. The essence to the insurance scheme is that, it is social device that it involves the accumulation of funds, that it involves a group of risks and that each person or firm who becomes a member of the group transfer his risk to the whole group. The purpose of insurance is to reduce the uncertainty and worry caused when it be comes aware of the impossible the economic burden of losses among members of the group. Insurance does not prevent loss but it relieves the financial burden. Insurance has become the usual instrument in the modern economic activities. We can not imagine the smooth operation of economic activities without the provision of insurance. Insurance is such a measure in the society, which relives a person from various anxieties (Bhandari, 2003).

The following chart shows the importance of insurance to individuals, business and society.

Chart: 1



2.1.3 Development of Insurance Business in Nepal

Insurance is a newly emerged business for Nepal. Although there were some social and cooperative businesses providing security to customer from ancient time, modern insurance business started by some Indian insurance companies in the early times. They were mainly focused in providing insurance facilities especially for import, export business increased in India. Therefore, the history of insurance business is definitively very short in Nepal.

As the first insurance company, Nepal Malchalani Tatha Bima Company Ltd. was established in 2004 B.S. This insurance company can be taken as the first step of mile stone of Nepalese insurance history, with authorized capital of five lakhs. It was later converted in to Nepal Insurance and Transport Company Pvt. Ltd. in 2016B.S. This was again renamed as Nepal Insurance Company Ltd. in 2048 B.S. Basically the company is concerned in non life insurance business. Before the establishment of that company, there were some branch of Indian insurance companies operating to provide insurance.

As a private insurance company with limited capital, the Malchalani Tatha Bima Company Ltd. was not successful to provide all types of insurance facilities all over the country foreign large insurance companies were doing well business in Nepal through agents. United India Insurance, Hindustan General Insurance, Starting Insurance, Ruby General Insurance, Oriental Fire Insurance had branches in Nepal to provide insurance facilities until 2024 B.S.

Considering the role of insurance business in the expansion of economic activities and alarming outflow of money from the country, the government of Nepal felt the need of large and well organized insurance company with in the country. Then immediately government established Rastriya Bima Sasthan under the Insurance Act 2025. This insurance company is totally finance by the government to provide all types of insurance perils which is essential for economic development. This insurance company has alone provided various types of insurance facilities for about 2 decades in Nepal (Bhandari, 2003).

After establishment of democracy, Nepal also implemented the policy of privatization on and economic linearization and globalization. As the country was following economic liberalization, the previous acts

were amended and new insurance act 2029 B.S. was introduced. Some of the key features of the acts are minimize paid capital of Nrs. 5 corer, arrangement of service change from insured arrangement off service change from insured arrangement of tariff board, classification of life and non life insurance policies, etc. As a result number of insurance companies have been established after this period and can be considered as the golden period in the insurance business history of Nepal. After wards a number of modern insurance companies were established from private sector contributing a lot in economic growth of the country. According to data provided by insurance board (2068), there are 25 insurance companies established in the country.

Table: 2.1

Market Structure at a Glance

Ownership	Nature of Company			Total
	General	Life	Composite	
Government owned	-	-	1	1
Private Sector	13	1	-	20
Joint venture	2	1	7	3
Total	16	4	8	25

Source: Insurance Board, Nepal (2011)

Among 25 insurance companies, only 4 operate in life insurance business 16 operate in non-life insurance business and 1 operate both life and non-life insurance business. At present about 340 branches of insurance companies have been opened in different part of the country and 2581 persons are employed in these companies. In order to systematize develop and regulate the insurance business Beema Samiti

(Insurance Board) is formed as an autonomous regulatory body under the insurance act of 1992. Function, duties and power of the insurance board are as follows.

1. Provide suggestions to government to formulate necessary policy for systematizing developing and regulating the insurance business.
2. Set out guidelines for insurers to invest their funds and prescribe the priority sectors for such investment.
3. Register and renew the insurer, insurance agent, surveyor or broker and to cancel or causes to cancel such registration.
4. Arbitrate in the dispute which arises between the insurer and insured.
5. Make decision on the complaints field by insurer regulating to the settlement of liability of the insurance.
6. Formulate necessary basis for the protection of interest of the insured.
7. Do or cause to do necessary functions regulating insurance business (Insurance News & Views, 2063).

2.1.4 Problems of Insurance Business in Nepal

Any occupation, business and industry do have positive and negative aspects. Similarly, for any business to have future bright, it should not have any problems. We can see, in any business, from small to big problems. It is undisputable fact the insurance business is an important business in Nepal. Though development in Nepal is not long, it has made some good advancement in a short time. But some problems have been appeared in insurance business, such problems are as follows:

-) Lack of proper consciousness on people.
-) Insurance education is not compulsory.

-) Lack of training about insurance business.
-) Lack of skillful and competent officials.
-) Small market of insurance in Nepal.
-) Lack of experience on the part of underwrites agents, brokers and surveyors.
-) Lack of provision of compulsory insurance
-) The problems of unemployment.
-) Weak economic condition of the most of the people.
-) Lack of re-insurance company in Nepal.
-) No habit of making insurance.
-) Lack of information and data about the insurance.
-) Less profit from insurance business.
-) Lack of healthy competition among the insurance companies.
-) Slowness in the claming procedure and insurance payment.
-) Ambiguous and limited insurance acts and rules.
-) Insurance companies not to be capable, to insure all type of risk.
-) No effective inspection, supervision and monitoring by the concerned authority.
-) Not environment of trust in the insurance business sector (Singh,2011).

2.1.5 Government Policy and Strategy on Insurance

Sector

The globalization of market economy is resulting in complex and competitive environment for carrying out business activities in Nepal. Nepalese economy has been facing throat cut competition from other developing countries to attract more forging investments. In the wake of liberalization and reforms the privatization the insurance sector is not only intended to meet the fundamental security needs of various sections of the society but also the overall development of the country (Sharma, 2062:19).

The government has adopted the following policy and strategy for the development and expansion of insurance insularly.

Policy

- a) Execute the field level and non field level inspection and supervision of insurance with primary importance and take necessary action in issues raised during this process.
- b) Mediate the dispute raised between insurer and insured and decide competition field by the insured against insurer as quick as possible.
- c) Conduct training programs and subject matter of insurance as basic level, medium level and higher level for the improvement or efficiency of manpower working in this industry and establish an insurance academy for this purpose.
- d) The insurer, performing life and non life insurance business as a separate agency as per the insurance regulation 1992. Thus separating life and non life insurance business functioning within the country as two separate to insurance entitled.

- e) Make insurance business people oriented by making qualitative improvement in the functioning of insurance surveyor and agents by making them follow the code of conduct.
- f) Prepare the substantive and suitable investment policy and fix the priority areas for investment of amount received from insurance.
- g) Make insurance business as trust worthy protecting the investment of life insurer.
- h) Check capital out flow through insurance business.

Strategy

- a) To develop as a strong for the mobilization of financial savings.
- b) Strengthen it as a means of economic and social security.
- c) Develop and expand it as a competitive and trust worthy sector of investment.
- d) Promote long term capital mobilization required for development projects (Insurance News and Views, 2007).

2.1.6 Prospects of Insurance Business in Nepal

Insurance business in Nepal doesn't have long history. But it is a true fact that insurance business has developed gradually. Insurance can't flourish in a small market. The signs of world wide liberalization in economic sector and the functions of public welfare have appeared in Nepal too. All these are favourable conditions for the development of insurance business. Insurance business has both positive and negative aspects. But in comparison, the positive aspects are stronger than the negative one. Insurance business has a good prospect in Nepal because

the insurance business has many positive aspects. The Insurance act 1992 has provided favourable legal environment to insurance business. After the membership of WTO Nepalese insurance business is accessible to foreign insurance market. The prospect of insurance business in Nepal is as following:

- Establishment of new industries and factories.
- Growing the number of trade companies.
- Growing of awareness in people.
- Creation of risky environment.
- Growth of population.
- Nepal being a developing country.
- Provision of compulsory insurance
- Adoption of public welfare policy
- Search of new sectors for the insurance business
- Show of interest by both sides the government and the people in insurance.
- Possibility of reinsurance company to be opened in Nepal
- Increase in the quality of new risk day by day.
- Increase in the number insured due to the growth of the life insurance companies.
- Positive attitude and good will of all towards insurance business.
- To arrange the training by the insurance board and insurance companies (Singh, 2007).

2.1.7 Legislations Relating to Insurance in Nepal

It is well known fact that any business needs law. Every business is directed and controlled by the legislation and regulation. Similarly, the insurance too is governed by the insurance act 2049 (1992) and rules 2049 (1992). The Rastriya Beema Sansthan and other more than 24 insurance companies from private sector are running now. The Rastriya Bima Sansthan is governed by Rastriya Beema Sansthan Act 2025 and insurance Act 2049 (1992) and the rules 2049 (1992) and the insurance companies opened from the private sector are run by the company act 2053(1996), contract Act 2056(1999) and Insurance Act 2049(1992) and the Rules 2049 (1992) initiation to it the insurance companies should follow their own memorandum, article of association and memorandum of understanding. They should obey the policy instruction and the circulars issued by the insurance board from time to time.

Different types of business are run by separate special acts not appropriate to disobey the provision of special act. In addition to it, they should obey the policy and directions issued by the office of the company register. All acts and rules help and control in every activities of insurance business.

Though the history of insurance business is not very long in Nepal. The following are the acts and regulations related with the insurance activities in Nepal (Dahal and Manandhar, 2007).

1. Rastriya Beema Sansthan Act 2025 (1968)
2. Insurance Act 2049 (1992) with amendment)
3. Insurance Rules 2049 (1992) with amendment
4. Company Act 2053 (1996)
5. Contract Act 2056 (1999)

2.2 Conceptual Frame Work and Legal Previsions of Income Tax

2.2.1 Concept of Tax

Nepal is one of the least developed countries. Nepal cannot successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment heavy dependence on agriculture, lack of adequate industries, low income level and social-political and geographical constraint over years of planned development. Yet, net, Nepalese economy is suffering from inefficient and effortless plan, program and policy of development and is also fighting against what ever bottlenecks identified before the starting of planned period (Bhattraai and Koirala, 2008).

Now a day, the prime concern of every nation of the world is rapid economic development and Nepal is no exception to this ever continuing process. Nepal aims for self reliant economic system to upgrade its living standard of people. Thus, a lot of money has to be spent to achieve maximum national objectives.

The government needs money to perform its role effectively. So, government collects revenue from various sources. The sources of government revenue are classified into two groups. They are; external and internal sources:

External sources of government revenue are foreign loan, grants, external borrowing etc. they are uncertain, in convenient and not good for healthy development of nation. Internal sources of government revenue are tax revenue and non tax revenue. Fees, fines, royalty administrative and business in come are the examples of non tax revenue. Tax revenue is

the major sources of the government revenue. Without taxes, government could not maintain the stability of a country's economy.

Tax is the compulsory payment to the government by taxpayer without any expectation of some return. It is a legal duty of every people of nation amount collected through taxation is spent from common interest of the people and it is collected through natural and artificial person.

According to Seligman, "Tax is a compulsory form the person to the government to defray the expenses incurred in the common interest of all without reference to special benefits."

According to Findlay, Shiras, "Tax is a compulsory contribution to public authorizes to meet the general expresses of the government which has been incurred for the public good and without reference to special benefits."

According to Plehn, "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states."

According to father of economic Adam smith a tax is a contribution from citizens for the support of the states.

It is clear that a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of service or goods from the government the tax payers do not have any right to receive direct benefit from the tax paid. Government collects the tax with the permission of laws. Amount collected through taxation is spent for common interest of the people.

Tax is classified in two groups, direct tax and indirect tax. Indirect taxes imposed on one person but paid partly or wholly by another the

example of indirect tax is custom, excises contract tax and value added tax. Direct tax is really paid by the same person on whom it is legally imposed. Income tax, interest tax, vehicle tax are some examples of direct tax. Direct tax is paid according to the income or property earned by a person. Income tax is a direct tax. In case of Nepal, income tax is the major source of direct tax revenue.

2.2.2 Concept of Income Tax

Taxes on income in the most important single sources of revenue for government of developed and also developing countries either if contribute more or less. The first problem encountered in establishing an income tax is the definition of income. Income as the economic gain received by the person during the particular periods, it is most satisfactory defined by henery Simons as the algebraic sum to items.

1. The person's consumption during the period and
2. The net increase in the individuals' personal wealth during the period.

Symbolically

$$y=C+\zeta W$$

Where y= Income

c=consumption and

ζw =in change in wealth

It is very difficult to define income precisely and clearly. So, income is exemplified rather than defined income tax laws of various countries. For examples Sec. 2 of the Indian income tax act 1961 keeps profits and gains, dividend, voluntary contributions received by charitable

trust, value of any perquisite or profit on lieu of salary any capital gain, winning from lotteries cross ward puzzles etc. under the head of income.

According to income tax Act 2058, Sec 2 (ch),"income means a person income from any employment, business or investment and the total of that income as calculated in accordance with this act."

From the above definition, income tax is direct tax levied on net income derived after deducting all allowable deduction from the total income. Income tax is levied on the incomes derived from business, employment and investments.

Generally, income tax can be classified into two types: Individual income tax and corporate income tax individual income tax is a tax on person's earnings. The corporate income tax is tax on the profit on a corporation.

Economists classify three types income tax systems; progressive, regressive and proportional. In a progressive tax system the tax rate is greater for higher incomes with a regressive tax system. People who earn less pay a large of their income in taxes then the people who earn more In a Proportional tax system; all people pay the same percentage of their earning in taxes.

There is a special provision of income tax for insurance business according to our existing income tax act, 2058. According to this act "A person's activities in conducting a general insurance business shall be treated as business from any other activities of the person and person's income or less from the business for income year shall be calculated separately. Income tax rate is 30% for insurance business (Income tax act, 2058, 60 (i), 58).

2.2.3 Income Tax in the International Context

Income tax was first introduced in Great Britain in 1799 in order to finance wars with France only after 1980, it was accepted as a permanent tax. In United States of America, first federal income tax was imposed in 1862 to finance civil expenditure. However, it became permanent features only in 1913 after 16th amendment to US. constitution. In neighbour country India, at first income tax was introduced in 1860. After introducing income tax act 1885 in 1886 it was imposed as a permanent. Italy adopted income tax in 1864, Nether lands in 1891, Australia in 1915 and Canada in 1917 after first world war, the income tax becomes an important source of tax revenue in many developed countries. By 1939, and had made appearance in a number of developing nations (Agrawal, 2004).

From the First World War decade income tax has shown as important sources of revenue in developed country. In the beginning of introducing time it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from U.K. and New Zealand.

2.2.4 Legal Provisions of Income Taxation in Nepal

No reliable records are available about taxation in ancient and medieval Nepal. At that time, tax was levied to them merchants and travelers. Though land tax was major source of revenue there were also irrigation and religions monuments preservation tax in the time of King Anshuverma of Nepal. There were taxes for purification of caste and cremation of the dead. In the Licchavis regime, there were three taxes called "Trikar" i) "Bhaga" ii) "Bhoga" and iii) "Kava" agriculture tax was called "Bhaga" animals husbandry was called "Bhoga" and "Kara" was in

general the Business tax and custom. The tax was payable according to the ability of the payer (Bhattarai, 2008).

During the period of 1968-1846, different types of taxes were levied to generate maximum revenue. The major sources of revenue were Brita and Kipat, taxes on land monopolies customs, transit and market duties, mines and mints and the export of forest product, birds and animals and various levies and local levies. During that period the various taxes were imposed primarily on occupation and economic activities, not in income and or property. There was no taxation of income in the modern sense of income tax (Dahal, 2007).

In Rana regime there was no formal provision to impose and collect of taxes. There was no difference between personal income of prime minister and state treasury. The surplus of revenue over expenditure was considered the personal income of the Rana prime minister. In that time the main source of revenue were land tax, custom and excise duties in the form of lump sum contracts royalty on forest, supply of porters and soldiers and other business activities. There was no proper tax administration for collection of revenue.

There were four main categories of agencies to select revenue; Rajya, Birta Guthi and Kipat.

"Salami" and land tax were only the direct taxes in the country. Land tax was collected on a contractual basis, government employees paid out of their salaries at very small percentages (Bhattarai, 2002:20).

2.2.5 Income Tax in Modern Nepal

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951 then the finance minister in his budget speech declared the intention of the government to levy and income tax.

The first elected government in 1959, finally introduced business profits and remuneration tax act, 1960 (2017 B.S) in Nepal at that time, income tax was levied only on business profit and salaries. After about three years experience of income tax, the government replaced the prevailing tax act by income tax act 1962. The coverage was extended in the act. In 1974, income tax Act (2031) was enacted. The act enumerated income source into five groups a) agriculture b) industry, trade, profession or occupation. c) remuneration d) house and compound rents e) other sources. However, agriculture income was kept outside the tax net except few years through the finance act.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation. and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted income tax act, 2002 (2058). This act has replaced income tax act, 1974 (2031), which was amended for eight times and existed for a period of 28 years. Nepal government framed income tax rules, 2059 in 2059 to help clarifying the act (Bhattar and Koirala, 2008)

Business Profit and Remuneration Act. 1960 (2017 B.S.)

In Nepal, income tax was first introduced in the fiscal year 1959/60 as the form. It "business profit and remunerations tax act. It has 22 section feature of this act are an follows :

- a) Tax in remuneration was to be deducted at source.
- b) The coverage of income tax was too narrow. Only business profit and remuneration income were subject to tax.
- c) The income of the current year for remuneration and the profit of the proceeding fiscal year for business profit were the basis for calculating tax liability.
- d) There was provision of fines ranges from Rs. 500 to Rs. 5000 in case of defaults.
- e) The tax officer was empowered to assess tax on best judgment estimation only incase of false statement or in absence of income tax return.
- f) Salary of foreign citizen, divided of shareholders, profits to be spend in religious or public welfare activity crop farm own land, allowances granted by Nepal government to ministers, assistant ministers, chairman, speakers, deputy speakers, leaders of opposition, amount drawn from provident or saving found were exempted from tax.
- g) Profits from industries were granted a rebate of 25% and profit from small industries were granted a rebate of 50%.

Income Tax Act, 1962 (2019 BS)

The "Business Profit and Remuneration Tax Act, 2017" was too narrow and vague. It has many loop holes for the income hidiers and inadequate provisions in the act. Because of this reason income tax act 2019 was introduced. Income tax Act, 1962 had 29 sections it was expansion of previous act. It was amended in 1972. The additional features of this amended act were as follows:

- a) Income was defined as all kinds of income such as profit from business, profession, remuneration and occupation, house and land income for agriculture and insurance business agency and other sources.
- b) The basis of tax assessment was specified don the best judgment estimate of the tax officers.
- c) Provision was made for the installment basis of tax for the first time.
- d) Provision was made for reassessment tax industries for a period of not exceeding ten years.
- e) The residential status of the taxpayers for the tax purpose was defined.
- f) Deductible exposes as well as methods of calculation of tax able income were specified.
- g) The act granted the power to constitute the income assessment committee.

Income Tax Act. 1974 (2031 B.S.)

Income tax act 1962 (2019 B.S.) could not fulfill the needs of time the changing socio-economic environment of the nation had forced to

charge the tax act. Because of this reason, income tax act was introduced. Its basic framework had been derived from previous act. it had 66 section. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986 1989 and 1992 to make it more practical and to eliminate confusing terms. Some of the points of the act with amendment use as follows:

- a) This act had clarified the definitions about income tax, taxpayer and income year, personal status of tax payers, non-resident taxpayer, net income and soon.
- b) Five sources of income had been specified. they were 1) Agriculture
ii) Industry, trade, profession or occupation iii) Remuneration
iv) House and compound rents and v) Others.
- c) Carry forward of losses is allowed within subsequent three years.
- d) It had made provision for self-assessment of tax for the first time in Nepal.
- e) Methods of computing the taxable income from each head had been specified with deductions allowable.
- f) Deduction was allowed for life insurance premium.
- g) Tax payers were required to keep accounts and records of the income and to be preserved for six years.
- h) Provision was made to make agreement for avoidance of double taxation with foreign governments.
- i) Provision was making relating to reassessment or additional assessment of tax.

- j) Although ITA 1974 (2031) was far a head than the prevails act, yet it had used many vague or unclear words like "reasonable" "appropriateness" etc. It had also provided high discretionary power to the tax officer in the matter of tax assessment (Bhattraai and Koirala, 2008).

Income Tax Act 2002 (2058 BS)

ITA 2058 has been implemented, 19/12/2058 B.S. This act has replaced the ITA 1974 (2031) and often act related to income tax. Government enacted in income tax rules 2059 B.S. In accordance with the authority given under section 138 'g') ITA 2002 B.S. has 143 section amended ITA 2058 has dismissed the section 66. The act is broad, scientific and international standard level. The differences of this act with previous act are made clearly by it salient features, which are given below:

- a) ITA 2058 B.S. has classified income into three heads 1) Business ii) Investment iii) Employment.
- b) This act has included all the previous relating to income tax. It is a law of income tax code.
- c) Provision has made to impose tax to all income sources uniformly.
- d) Provision has been made for the deduction of all express relating to income earnings.
- e) This act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- f) Provision has been made for the deduction of all exposes to each income in accumulation from taxpayer's income.

- g) Carry forward of loss is allowed for the period of seven subsequent years. This limit is extended up to five years for banking and insurance.
- h) Provision of tax incentives has continued for infrastructure instruction electricity projects and special industries and also carry forward of losses is allowed for the period of twelve years to infrastructure and electricity project.
- i) It has clearly included the rights and duties of taxpayers.
- j) Provisions have made to claim for deduction of pollution control device, research and development expenses, repair of maintenance expense and donation.
- k) It has classified the tax payers into natural person and entity. Entity includes company, partnership form, trust and so on.
- l) The Inland Revenue Department is responsible for the and imprisonment.
- m) This act has determined the rate of income tax itself for the first time which used to be act determined by the finance acts in the previous year.
- n) A person has been determined as a resident as a resident whose place of abode is in Nepal and who lives in Nepal at any time or who lives for 183 days or more within the income year or who is an employee of government posted abroad during the income years.
- o) The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.

- p) Donation about can be deducted as a 5% of adjusted income or Rs. 100,000 or actual paid amount which ever less (Bhattai and Koirala, 2008)

2.2.6 Legal Provisions Relating to Insurance Business Under it ACT 2058

Sec. 59 to 62 of the Income Tax Act, 2058 has made the provisions related to banking and insurance business. According to Sec. 59, a banking or general banking or investment insurance business of a person should be treated as a separate business. It means, such business should not be mixed with other business and the income or loss of banking, general insurance and investment insurance should be separate from other businesses.

The other provisions in this regard are as follows:

1. As stated in Sec. 59, the person running the banking business would be provided to deduct at the most 5 percent of the contingency amount as expenditures. If such expenditure is shown, bad debts can not be shown in profit and loss account as expenditure. If the amount in contingency fund is capitalized or dividend in distributed, it should be shown as income in the year of the capitalization. The loss from banking business can be carried backward for 5 years. However, if contingency fund is utilized to show as expenditure, the carry backward facility is not allowed. The condition to be fulfilled while carrying backward the loss is that the loss will not exceed any income derived from the business for the particular preceding income- year and it will not in total exceed the amount f the loss. Another condition is that the carry backward can be only to reduce the amount of the loss

that is considered an unrelieved loss. In this respect, banking business means a bank which is authorized to carry banking transactions,

2. As stated in sec. 60 and 61, for the purpose of calculating the income of a general insurance an investment insurance business one should include income along with the amount required being included under other provisions of this act:

) The amount of premiums in respect of insurance including premiums on re-insurance.

) Amounts derived during the year under any contract or re-insurance, guarantee, security, or indemnity in respect of payments as insurer.

The allowable expenses in this respect are:

) Payments made during the year as insurer in conducting the business, and

) Premiums returned to an insured during the year in calculating income from the business of the year or a previous year.

The loss from general insurance can be carried backward for 5 years. The conditions to be fulfilled while carrying backward the losses are: the loss will not exceed any income derived from the business for the particular preceding income-year and it will not in total exceed the amount of the loss. Another condition is that the carry bank ward can be only to reduce the amount of loss that is considered an unrelieved loss. In this respect, general insurance means a general insurance business registered as per the prevailing laws and varying general insurance transactions. As regards to the benefit from investment insurance (Sec.

62), the insured person should be taxed in the form of a final withholding in case resident person pays the proceeds, and it will be included in calculating the income of insured in case where non resident person pay the proceeds (Income tax Act, 2058).

2.3 Review of Books

While reviewing the books, it was found that most of the books were syllabus oriented and some of them had described the problems and prospects of income tax system and a path for reform of income tax. Though the books are descriptive, these are not analytical on the topic of tax contribution from insurance business in Nepal. Determination of income from insurance business for tax purpose is not as similar as other manufacturing, trading or service oriented business. Again finding of chargeable incomes and admissible expenses for the purpose of income of life and no life insurance business is different in itself. Tax rate for life and non life insurance is different. The income tax act, 2058 has also stated different provisions for set off, carry forward and carry back of losses. For life and no life business. Nevertheless, some books are more important and relevant for these studies.

Dhakal (2001) write a book entitled "Income tax and House and compound tax laws and practice" Dhakal has described the various provisions under ITA 1974. This is divided into four parts. He has described about tax, income tax in Nepal, house and compound tax and value added taxes etc. This book is used on B.Com and MBS syllabus. It is useful for information about income tax, property tax and VAT.

On new Income Tax Act 2058 (2002), some other books have also been written and published "Income tax law: past and present " has been

written in Nepali by Bishwo Deep Adhikari in 2059, "Modern Income tax system of Nepal", has been written in Nepali by Mallik in 2000 and "modern tax system of Nepal: Principle and practice" by Chandramani Adhikari 2060. These books are useful to understand the laws and provision of new income tax act 2058. In these books, the respective authors have tried to describe the laws and provisions in descriptive manner with examples. Various numerical examples are also given to understand the treatment of special provision in income tax assessment process. These books have also included the evaluation of income tax system in Nepal.

Kandel (2004), published a text book entitled " Tax Laws and Tax Planning in Nepal." The book was designed to fulfill the needs of MBS and BBS level under T.U. This book was very useful to the student and teachers to know the legal provision of income tax Act 2058. The book has attached unofficial translation of the tax laws both Acts and Rules related to value added tax and income tax. This book was more informative rather than analytical.

In 2004, Amatya, Pokharel published a book entitled "Taxation in Nepal (income tax, property tax value Added Tax)". This book has exclusively been designed for the subject "Taxation in Nepal' as per the syllabus prescribed by the faculty of management, Tribhuvan University for 3rd year of Bachelor of Business studies (BBS). Unlike other books available on this subject, this book makes an in-depth approach to the study of income tax, property tax and value added tax in Nepal in order to meet specific requirements of those student who are studying taxation as concentration subject at BBS 3rd year. This book was very useful to know the legal provision of income tax Act 2058 and value Added tax act 2052. Theoretical aspects as well as numerical problems of income tax and

value added tax are shrewdly presented in this book. However, the book was failed to analyze legal provisions with numerical examples on the topic of income taxation of insurance business.

Their book entitled "Income tax theory and practice" written by Agrawal published in 2004 served all the concerned people like tax practitioners, chartered accountants, registered auditors, accountant and other managerial personnel in big enterprises, CA student, student of law having taxation as one of the subjects etc. The author has tried to present to the extent possible real life problem relating to income tax in the books. However, the book was failed to explain in detail regarding legal provisions for taxation of income from insurance business.

In 2004, Bhattarai and Koirala Published a book entitled "Tax Laws and Tax Planning." This book has been written to fulfill the Master Degree course of Tribhuvan University. This book has been organized in 20 chapters. In this book the writers have described the provisions related to income tax assessment and tax planning they have also presented and overview of relevant tax laws. Income Tax Act 2058 and value added included numerical problems in the regarded of income tax assessment. This book is informative and descriptive rather than analytical.

2.4 Review of Articles

There are many articles relating to income tax of Nepal written by professionals. The administrative, legal and procedural aspects of income taxation where agreeably found in some of the articles. The articles also presented some suggestions that have to be implemented immediately for the improvement and betterment of taxation in Nepal. Some articles have been presented below in brief.

Mr. N. Krishnaswamy(2004) has presented few instances of arbitrary tax assessment in his articles named "Anomalies in Income Tax Act, 2058"through the Chartered Accountant, journal of the Institute of Chartered Accountants of Nepal. As per the article when the new income tax act was introduced it was assured by the D.G. that the new act, has provided for self tax assessment and the discretion of the tax officer has been reduced and if they have to make an add-back they have to submit proof of evidence for the same. But still the tax officer have not grown out of the old thinking and still continue to make additions for the sake of enhancing the income and tax there on some instances strictly against the concept of accounting have been presented by the author. These are:

- a) In one case the assesses has accounted on the 15th July, goods receive him but the supplier gave the bill dated 17th July. In the normal accountant practice, when the goods are received it should be accounted for. Even through the purchase is accounted the same has been including in the closing stock thereby equalizing the purchase. Thus there was no serious misrepresentation of income for tax pager. But the tax officer added the purchases accounting for on 15th July of Rs. 14 lakhs to income as expenses relating to the next year and claimed wrongly as expenses in the year ending 16th July. The purchases are never claimed as expenses when the stock is created in the profit and loss A/C.
- b) The supreme court has held that in cases of non-deduction of advance tax, only advance tax has to be collected according to law and no. addition of the amount on the advance to be collected should be added to income of assesses. The tax officer can only insist on payment of deduction of tax and can not add to the income of assess. If the department wants a fair play with the taxpayer.

The author has extremely suggested that income tax laws should be with "asking" and not "collecting" and assesses should be "giving" willingly and "not paying" forcefully.

Sinha has presented his article named "Taxation-Legal Illegality" in December 2005 through the chartered accountant, Journal of the institute of chartered accounts of Nepal. The article deals that clear words for that purpose. Article 73 of the constitution of Nepal 2047 and section 8 of the citizen rights act. (Nagarik Adhikar Ain 2012) provides cooling provision by which all are constitutionally, legally and theoretically protected against undue an illegal tax collection or taxation with out proper authority of law. The question of what is legally taxable and what is not has always been a widely talked issue and in many instances those are subject to interpretation. The tax authority uses the provisions of laws to the best (or worst) of their ability whereas minimization of tax is the right of taxpayers. There is no equity about a tax. There is no presumption to tax. Nothing is to be read in nothing is to be implied one can only look fairly at the language used.

The complexity of this new income tax act is evident from the wordings and phrasing used in various clauses and the great degree of compliances required by the taxpayers, failure to which the fine and other liabilities are exorbitant. In country there is hardly effective provision to make the tax authorities accountable for their acts or actions causing a sense of skepticism among the taxpayers.

The taxpayers have been encouraged by the tax officials themselves to go to the courts over the complaints of their wrong doing because the authority is totally, convinced that no immediately solution can be expected from the court of tribunal in short span of time as long as

they are in position. One of the major suspicious on the independency and role of revenue tribunal is the procedure where by the decision of the DG of the IRD has to be reviewed through appeal by the tribunal.

2.5 Review of Thesis and Dissertations

There are many studies relating to income tax of Nepal undertaken by various individuals and some institutions. They all are concerned mostly on the administrative, legal and historical aspects of income taxation. Most of the dissertations presented by previous postgraduate students have focused about the trend of income tax collection and contribution of income tax with GDP. During the conduct of the study, research on the topic of a study on "Contribution of Insurance Business on Income Tax Revenue" has not been found by any research. The previous research has not been found to deal on the procedural aspects of determination of income from insurance business for the purpose of income tax and its contribution to income tax. To fulfill this gap, this study has been concentrated on procedural aspects of the determination of income from insurance business for tax contribution to government revenue. Analysis of imposition of income tax on income from insurance business and problems facing by insurances and insured due to imposition of tax. This study is significantly different from other research study. However, some dissertations have been taken as reference of this dissertation which has been presented below in brief.

Niraula (2006) wrote thesis entitled "Implementation problem of Income Tax Act 2002". In his thesis he has explained that Income Tax Act 2002 is modern and advance than previous tax act however still there are many problems in current income tax act. According to Mr. Niraula, the major problems of current Income Tax Act 2002 are, illegal business activities,

tax evasion and avoidance, complicated language, lack of educated people, lack of appropriate tax assessment procedure, corruption, political interferences and etc. He also suggested that to effectively generate revenue from the income taxation, the act should be effectively implemented since the act has many features. Tax payers should have positive response towards their duties and rights and the tax administration must be liable to fulfill the responsibility provided by the law that support to effective implement the act.

Khatiwada (2007) has done thesis entitled “ Attitude of businessmen towards Income Tax Act 2002(2058). The main objective of his thesis was to analyze the impact and effectiveness of income tax on revenue generation of Nepal and give appropriate suggestions to improve the tax system so that the government can collect more revenue and use it in the economic development of the country. According to his thesis collection of income tax has faced various problems like tax evasion, poor tax administration, unsound income tax policy, lack of consciousness of people and etc. The success and effectiveness of income system entirely depends upon provisions of income tax system, sound and effective tax administration, trained employees as well as positive response and willingness of taxpayers to implement the provisions. Income Tax Act 2058

is modern and effective than the previous Income Tax Act but some of the problems still existing the act are insufficient rebates and facilities, increasing corruption, ineffective services to the taxpayers by tax administration and etc. So tax act should improved accordance with tax payer and implemented properly can solve the existing problem of tax act and help to increase the tax revenue in the total revenue of the government. Some of the recommendations made by him in order to

correct the Income Tax Act 2058 as well as to improve income tax system of Nepal are:

a. To increase the contribution of income tax in the total revenue of the government, improvement of overall tax structure system, simplification of act and policies, adjustment of tax slab, strictly implementation of law, rule and regulation to regular taxpayers, to find the new source of revenue, increase the tax ratio to meet the deficit budget and etc. are essential.

b. To make the tax system effective the recommendation made by him are clear and simple tax law and rules, further explanation in simple language to the definition made in Income Tax Act depth knowledge to the policymakers about income tax, to make the self-assessment system effective, effective auditing and accounting system should be described, direct tax system should be introduced, clear provision for deduction sufficient allowances and sufficient rebate should be made under provision, exemption limit should be adjusted according to the inflationary condition, adequate medical tax credit to individual, provisions of reward, prize and incentives to encourage the taxpayers, utilization of rights of businessmen under income tax, weak points of the act should be replaced by new policy, lower fine and penalty in general condition and higher fine and penalty for income tax evaders is essential, tax policy should be in accordance with economic policy of the country and etc.

c. To overcome from the major problems existing in the current act, the recommendations made by him are; well trained employees in the tax administration, free of political pressure to tax administrators, punishment to corrupt employees and rewards to the employees worked positively,

continuous effort to develop the taxpayers positive attitude towards the tax, provide knowledge and training to taxpayers about the incentives, facilities directly related with taxpayers, improvement in poor response and unnecessary delay from the tax officers, sufficient facility and good working place should be provided to tax officials, bringing of consumer scheme to motivate them to take bill of purchasing goods, to implemented VAT effectively the boarder point should be tight and should evaluate export/import of goods appropriately, electronic cash register machine should provide by the government at cheap rate which is necessary for every business to billing their sales transaction which help to solve the tax evasion, coordination between tax department, tax offices and business organization, implementation of TDS system to save tax from tax evasion, practically utilization the administrative review and the appealing system.

Nepal (2008) in her study has emphasized on fiscal system of Nepal, origin, meaning, existing position, role, problem and future perspective of income tax in Nepal. The major problems existing in Nepalese income tax system, identified by her are the insufficient income tax administration, mass poverty, lack of tax consciousness, low number of tax payers, lack of cooperation between tax payers and departments, narrow coverage, assessment deficiency etc. She has suggested that if these problems can be solved and resources are effectively utilized the future income tax would be bright. She suggests that exemption limit should be separate to couple and family and the tax rate & exemption limit should be elastic & progressive.

Regmi (2009) has studied the trend and share of income tax in total tax revenue and in GDP of Nepal. He has describe the growth, objectives and stabilization of income tax. He has found out that income tax can check

the inflationary trend within the country as well as it direct the flow of resources of the economy into useful and productive channels and increase the productive capacity of the economy. He has suggested that the practice of evasion of the tax must be checked to contribute taxes to the economy growth of Nepal. He further suggests for widening tax coverage, application of scientific assessment method, simple and easy procedure of tax payment and establishment of research unit. He has not included the comprehensive aspect of income tax.

Shakya (2010) wrote thesis entitled “A study on Income Tax Act 2058”. His study was based on Income Tax Act 2058 and objectives were to examine the simplification of income tax assessment procedure; to find out the effectiveness of service delivered by tax administrators to the tax payers; to analyze the taxpayer’s, response regarding to their duties and rights; to review the provisions regarding to minimize the tax evasion, avoidance, corruption under the act and to view the structure of government revenue and position of income tax. He found that tax evasion and avoidance are the major constraints for effectively mobilize the income taxation. According to his study the reason for tax evasion and avoidance are inefficient tax administration, poor tax morality and tax payers compliance, inadequate audition and investigation, reluctance of taxpayers’ to maintain account, poor enforcement of fine and penalties, inappropriate tax act and laws and etc.

CHAPTER III

RESEARCH METHODOLOGY

The research method designed to achieve the objective of this thesis contains research design, population and sample, data collection procedure tools or analysis and methods analysis presentation, respondent's profile.

3.1 Research Design

The research design is a plan structure and strategy investigation can received so as to obtain answers to research questions and to control variance.(Kerlinger, 2002:301) This research is concerned with past phenomena both numerical as well as opinions. This study is both descriptive and analytical. The primary data and information is also used whenever necessary.

3.2 Population and Sample

The population for this study is comprised the entire person belonging to income tax of Nepal. They are income tax administrator, income tax payers and tax experts. In order to fulfill the objectives of the study 30 sample size from Kathmandu Valley has been selected, person included in the sample are carefully selected by consultation with experts and best judgment of the researcher. The respondents can be divided into three groups. The following table shows the group of respondents and the size of samples.

Table:3.1

S.N	Group of Respondents	Sample Size
1	Income tax administrators	10
2	Tax Experts	10
3	Tax payers	10
	Total	30

3.3 Nature and Source of Data

Necessary data and information for this study were collected from primary and secondary sources.

3.3.1 Primary Data

The source of primary data was the opinion survey. Primary data are collected through questionnaires distributed to all respondents. 35 questionnaires were distributed but only 30 responses are received. Tax administrators were selected from various tax offices. The tax experts were the lectures, auditors, chartered accounts etc. Tax payers were insurance companies.

3.3.2 The Secondary Data

The secondary data and other related information were collected from the following sources.

- a) Published and unpublished annual reports of insurance companies and insurance board.
- b) Published and unpublished reports, articles and dissertations on the concerned subject.

- c) Publications of Nepal Government Ministry of Finance, Budget Speech and Economic surveys of various fiscal years.
- d) Published documents of National Planning Commission, Nepal Rastra Bank, Central Bureau of Statistics and etc.
- e) Books, Journals and Publications related to the data and information.
- f) Websites

3.4 Data Collection Procedure

Data and information used in this study were collected from primary and secondary source. To get primary data a set of questionnaires were developed and distributed to the selected respondents, who were familiar to the income tax and insurance business.

3.5 Data Analysis Tools

Various statistical descriptive tools are used for the collection, tabulation, presentation and interpretation of data. For the statistical tools percentages, average, charts and diagrams are used for the comparative study of data of various period.

3.6 Methods of Presentation

The collected data (both from primary and secondary sources) are tabulated and presented to make these data clear and more informative. Such data are presented in figure like bar diagram, trend line and pie-chart, which ever is relevant to explain the data effectively, on the basis of the nature of data. After presenting these data they are analyzed by using various statistical and mathematical tools and techniques.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter entitled "Presentation and Analysis of Data" has been organized to present the data and analyze them accordingly. This chapter covers presentation and analysis of secondary data, as well a primary data and major findings thereof.

4.1 Presentation and Analysis of Secondary Data

Tabular as well as graphical presentations have been used in order to analyze contribution of income tax of insurance business to government revenue.

4.1.1 Existing Scenario of Insurance Companies

Present market scenario has large number of insurance companies operation. Nepal insurance company the first insurer in Nepal, which was established in 2004/6/4 B.S. Before the enactment of insurance act, 2049, there was only 5 insurance companies in Nepal. The insurance act, 2049 and insurance regulation, 2049 are the main guidelines for the administration of the insurance industry in Nepal. Now in Nepal, there are 25 insurance companies working in the insurance market. Out of 25 companies, government owned 1, private sector 18, foreign 3 and joint venture 3. Nature of those companies are general (Non life)-16, life-8 and composite-1. The table shows the market structure of insurance companies.

Table: 4.1
Existing Scenario of Insurance Companies of Nepal

S.N.	Name of company	Business	Established	Branch	Staff
1	Nepal Insurance Company	Non life	2004/6/8	25	199
2	The Oriental Insurance Co. Ltd.	„	2024/5/30	19	110
3	Rastriya Beema Sansthan	Life + Non life	2025/9/1	32	301
4	National Insurance co. Ltd	Non. life	2030/9/17	15	168
5	National Life Insurance	Life	2044/9/23	31	189
6	Himalayan General Insurances	Non life	2050/4/6	13	99
7	United Insurance Co. (Nepal) ltd.	Non life	2050/7/6	13	96
8	Premier Insurance Co. Ltd.	Non life	2051/1/8	14	101
9	Everest Insurance Co. Ltd.	Non life	2051/2/17	13	98
10	Neco Insurance Co. Ltd,	Non-life	2053/2/17	16	97
11	Sagarmatha Insurance Co. Ltd.	Non-life	2053/3/12	14	110
12	Alliance Insurance Co. Ltd.	Non-life	2053/44	18	145
13	N.B. Insurance Co. Ltd.	life	2057/10/10	8	102
14	Nepal life Insurance Co. Ltd.	life	2058/1/4	16	98
15	Life Insurance Corporation Nepal	life	2058/4/23	15	68
16	American Life Insurance Co. Ltd.	Non-life	2058/4/18	5	117
17	Prudential Insurance Co. Ltd.	Non-life	2059/1/20	9	69
18	Shikhar Insurance Co. Ltd.	Non-life	2061/7/2	10	90
19	Lumbini Insurnace Co. Ltd.	Non-life	2062/3/31	17	92
20	NLG Insurance Company	Non-life	2062/6/23	10	60
21	Siddhartha Insurance Company	Non-life	2062/2/23	6	49
22	Asian Life Insurance Co Ltd.	life	2064/11/5	7	33
23	Surya Life Insurance Co Ltd.	life	2064/12/6	5	35
24	Gurans Life Insurance Co Ltd.	life	2064/12/18	5	30
25	Prime Life Insurance Co-Ltd	life	2065/1/24	4	25
Total				340	2581

Source: Annual Report of Insurance Board (2066/067)

The above table shows the details of registered insurance companies in Nepal. At the present, about 340 branches of insurance companies have been opened in different parts of the country and 2581 personnel are employed in these company.

4.1.2 Premium Income of Nepalese Insurance Market

Insurance income collection from life and non-life business has been presented in the following table. For the purpose of study eight years data from fiscal year 2059/60 to 2066/67 has been considered and presented. Though insurance premium was small in the initial years, it was found in increasing trend both in life and non-life business. Minimum premium income of life and non-life business are 172.61 million and 131.54 million respectively in fiscal year 2059/060. The maximum premium income of life and non life. Insurance 890.90 million and 650.00 million. In fiscal year 2066/67. The share of premium of life insurance in total premium income is lower than the share premium of non life insurance premium upto fiscal year 2059/060 but the share of premium of life insurance in total premium is higher than non life insurance in fiscal year 2065/066 and 2066/67.

The percentage share of premium of life insurance in total premium is increasing trend except in fly 2060/61. The percentage share of premium of non life insurance share premium of non life insurance in total premium is increasing trend up to fly 2061/62 then the percentages share of premium of non life insurance in total premium is decreasing. The percentage of share of premium of life insurance lies between 27.84% and 51.40%. But the percentage share of premium of non life insurance lies between 42.71% and 59.63%. the percentage of Insurance premium collection is increasing trend. From the table, annual% of Increasing

Insurance premium from fiscal year 2059/60 to 2066/067 were 15.06%, 10.18%, 21.80%, 14.14%, 18.63%, 15.96%, 27.58%, 14.20%.

Table: 4.2

Premium Income of Nepalese Insurance Market

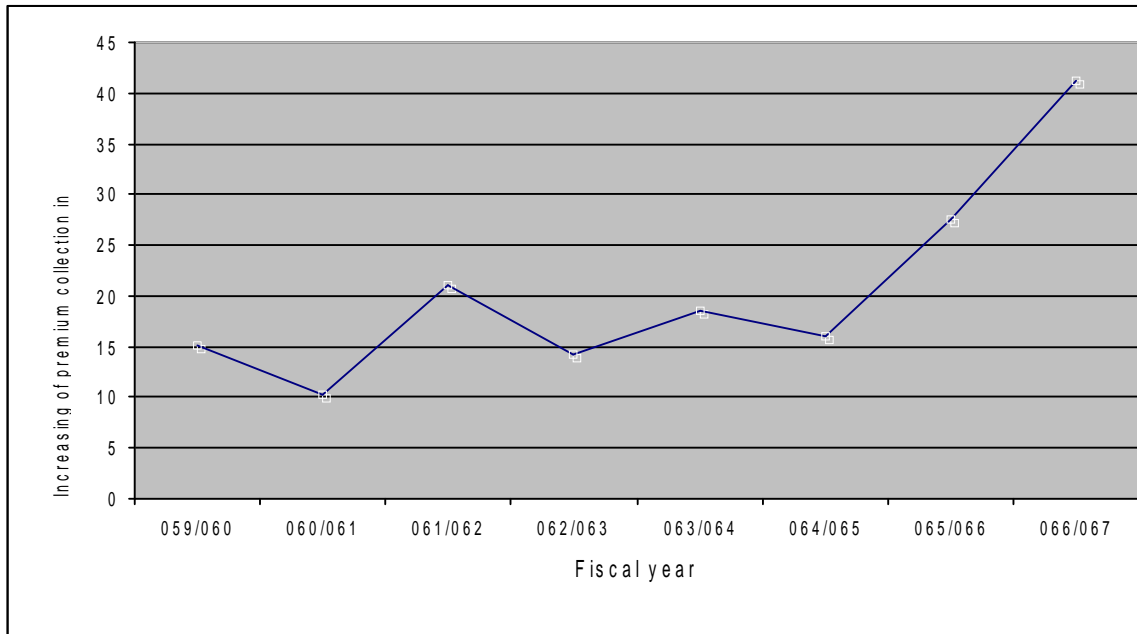
(In 10 million NRS)

Fiscal Year	Life		Non Life		Grand Total	Increasing trend of Premium Collection in %
	Amt.	% of total premium	Amt.	% of total Premium		
059/060	172.62	42.71	231.54	57.29	404.15	15.06
060/061	208.38	46.79	236.93	53.21	445.31	10.18
061/062	272.48	50.07	271.62	49.93	544.10	21.08
062/063	335.55	54.03	285.46	45.97	621.01	14.14
063/064	412.35	55.97	324.36	44.03	736.71	18.63
064/065	483.87	56.63	370.45	43.37	854.32	15.96
065/066	650.00	59.63	440.00	40.37	1090.00	27.58
066/067	890.90	57.85	650.00	42.15	1540.00	41.20

Sources: Annual Report of Insurance Board (2066/067)

Figure: 4.1

Percentage of Increasing Premium Collection



The trend line of percentage increasing premium collection in different fiscal years has been shown in the figure. It was found that the insurance business in Nepal is growing and increasing trend.

4.1.3 Contribution of Insurance Business in GDP

Gross domestic product indicates the value of goods and services produced within the nation. For the purpose of the study, contribution of insurance business in GDP has been presented in the following tables.

Table: 4.3

Ratio of Insurance Premium and GDP (Nrs. 10 Million)

Fiscal year	GDP (form non agricultures sectors)	Total Insurance Premium	% of insurance premium on GDP
059/060	27432	404.15	1.47
060/061	28906	445.31	1.45
061/062	29837	544.10	1.82
062/063	31418	621.01	1.97
063/064	32795	736.71	2.24
064/065	34723	854.32	2.46
065/066	36385	1090.00	2.99
066/067	38214	1540.00	4.02
Total	259674	6235.6	-
Average	32459.25	779.45	2.40

Source 1. Economic Survey 2066/67, MOF

2. Annual Reports of Insurance Board (2066/067)

The data reveals that contribution of insurance business in GDP from non agriculture sector only as well as was in increasing orders. The percentage share of premium income in GDP lies between 1.47% and

4.02% during the study period. The contribution of premium income to GDP is in increasing trend. The minimum contribution is 0.88% in Fiscal year 2059/060 and maximum contribution 4.02% in fiscal year 066/067. The average contribution during the study period is 2.40%. Total premium income is Rs. 6235.6 in and average premium income is Rs. 779.45 m during the period.

4.1.4 Income tax from Insurance companies in Nepal.

The following table shows the income tax and special fees of insurance companies individually over eight years. Income tax of Rastriya Beema Sansthan is not available because it has done . Audit from last many years. The amount of income tax in taken from the profit and loss account of the insurance companies. Some unclear provisions of income tax are not taken unclear consideration.

Table: 4.4**Income Tax from Insurance Companies in Nepal. (nearest rupee)**

S. N.	Name of Company	2055/056 Income tax	2056/057 Income tax	2057/058 Income tax	2058/059 Income tax	2059/060 income tax	060/61 Income tax	061/62 Income tax	062/63 Income tax
1	Nepal Insurance Company	18106320	19013260	19931932	21332134	22342350	22997630	23873210	25374565
2	The Oriental Insurance Co. Ltd.	14132343	15934651	16893531	19735422	20946434	22745330	22935301	24013402
3	Rastriya Beema Sansthan	1955322	20053763	22037553	25371811	27193180	28231167	29123443	30312025
4	National Insurance co. Ltd	14923869	14879567	15788675	19397866	21213143	22132414	22981516	25132445
5	National Life Insurance	14874644	16783645	17677655	20446531	22334132	24350341	25012301	27103263
6	Himalayan General Insurances	4874644	5381533	5973641	6125373	6352621	6563743	6678131	7067225
7	United Insurance Co. (Nepal) ltd.	11563991	10653871	14569361	18653633	20511354	20986450	21145632	22154132
8	Premier Insurance Co. Ltd.	3079477	4198366	4589455	4854536	5013246	5334454	5413221	6042312
9	Everest Insurance Co. Ltd.	9704724	9533833	10538440	12374437	13383312	14325160	15237621	17326722
10	Neco Insurance Co. Ltd,	8201180	9003491	10034522	13356456	13736351	15532011	15945310	16643512
11	Sagarmatha Insurance Co. Ltd.	9870591	99807943	102769350	103866534	104866341	107854313	108045631	108835123
12	Alliance Insurance Co. Ltd.	6607163	6957244	7566355	8056244	8667321	9012312	9232541	9624644
13	N.B. Insurance Co. Ltd.	7661747	8153845	8963954	9173845	9366341	9456432	9665567	9956723
14	Nepal life Insurance Co. Ltd.	7510540	7930450	8445645	8734534	8941412	9032143	9342314	9834232

15	Life Insurance Corporation Nepal	3371750	3981340	4491430	4581890	4741321	4831431	5041341	5531440
16	American Life Insurance Co. Ltd.	5899380	6089490	6498380	7089440	7203543	7315331	7551421	7963912
17	Prudential Insurance Co. Ltd.	-	79348	88453	98560	110531	115730	130987	201031
18	Shikhar Insurance Co. Ltd.	-	-	-	89349	99870	110394	125530	170540
19	Lumbini Insurance Co. Ltd.	-	-	-	-	70810	100310	120240	160780
20	NLG Insurance Company	-	-	-	-	80350	91533	111640	150650
21	Siddhartha Insurance Company	-	-	-	-	65610	90394	110650	130770
22	Asian Life Insurance Co Ltd.	-	-	-	-	-	-	60540	115640
23	Surya Life Insurance Co Ltd.	-	-	-	-	-	-	65890	103430
24	Gurans Life Insurance Co Ltd.	-	-	-	-	-	-	70950	110531
25	Prime Life Insurance Co-Ltd	-	-	-	-	-	-	-	105630
	Total	132670585	168615640	175359338	313338595	327239573	341209023	347909288	354164679

Source 1. Economic Survey 2066/67, MOF
2. Annual Reports of Insurance Board (2066/067)

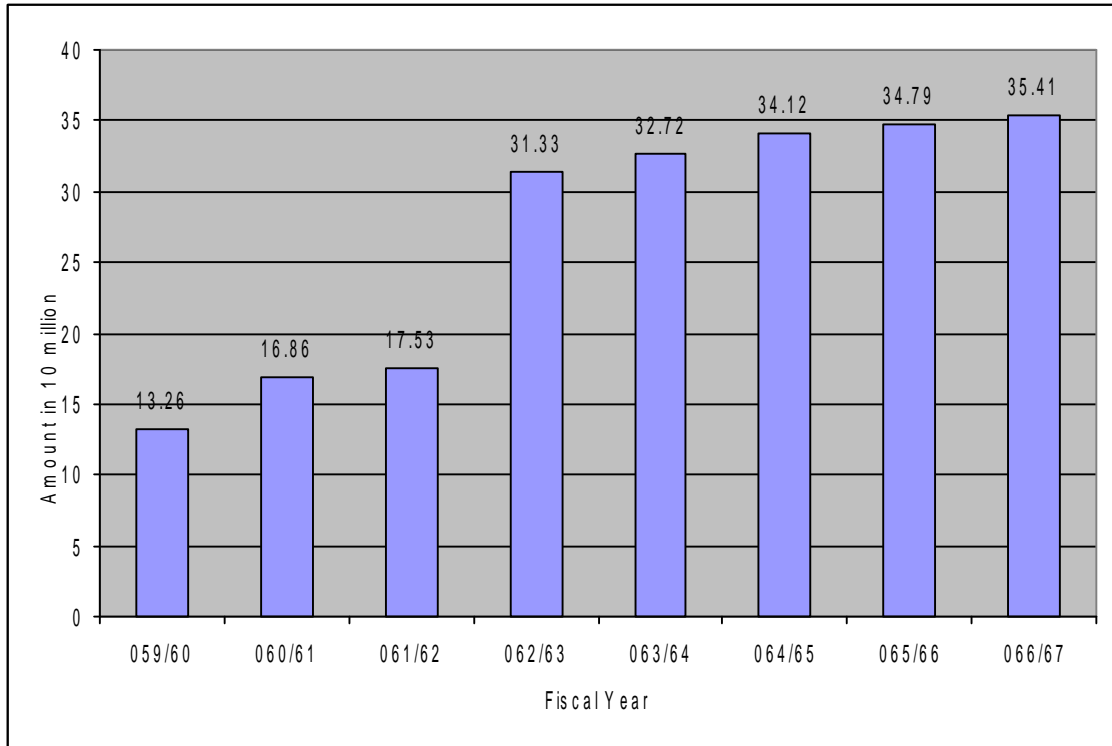
In above table the Amount of Raystriya Beema sanstan has be Included.

Table: 4.5**Total Amount of Income Tax from Insurance Companies****(Rs. 10 Million)**

Fiscal year	Income Tax	Rs. 10 Million
059/60	132670585	13.26
060/61	168615640	16.86
061/62	175358338	17.53
062/63	313338595	31.33
063/64	327239573	32.72
064/65	341209023	34.12
065/66	347909288	34.79
066/67	354164679	35.41
Total	2160505721	216.02
Average	2700632.15	27.00

The following figure 4.2 shows the income tax from insurance business contributed in government revenue. The average contribution of insurance company on income tax is 270.0 million per year.

Figure: 4.2



4.1.5 Contribution of Income Tax form Insurance

Business to GDP

The contribution on income tax from insurance companies to Gross Domestic Product (GDP) of Nepal is presented in following table:-

Table: 4.6**Contribution of Income Tax form Insurance Companies to GDP.**

(Rs. in 10 Million).

F. Y.	GDP	Income Tax from Insurance companies	% of Income tax from Insurance co. in GDP.
059/60	49223	13.26	0.027
060/61	53675	16.86	0.031
061/62	58941	17.53	0.029
062/63	65408	31.33	0.047
063/64	72783	32.72	0.045
064/65	81566	34.12	0.041
065/66	99132	34.79	0.035
066/67	118268	35.41	0.030
Total	598996	216.02	0.285
Average	74874.5	27.00	0.035

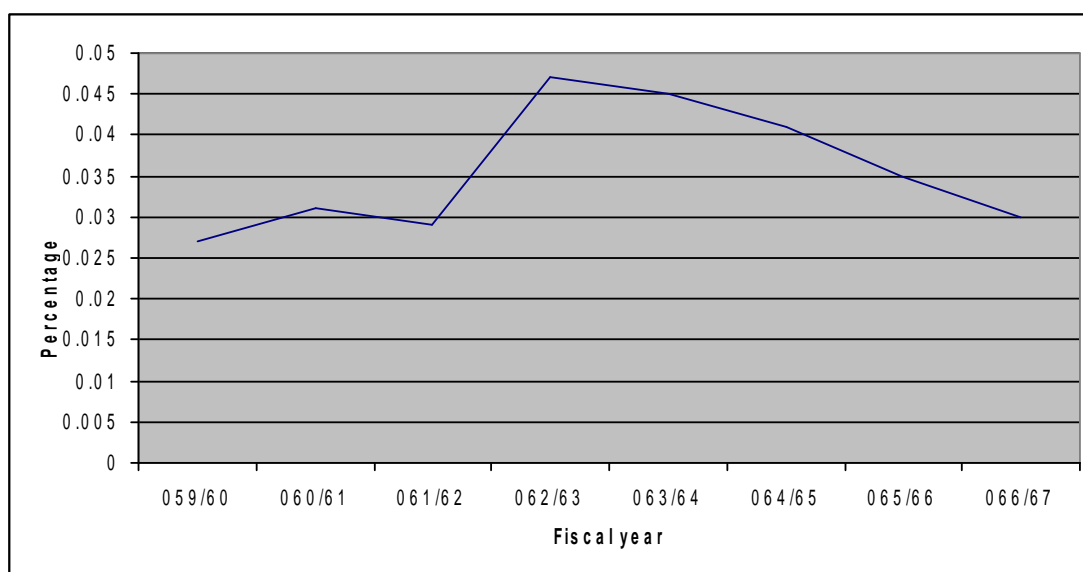
Sources: 1) Economic Survey of Various Year, MOF, Nepal.

2) Annual Reports of Insurance Board (2066/067)

From the above table shows the contribution of income tax from insurance companies to GDP is increasing trend. The minimum percentage of income tax contribution from insurance business is 0.027 in fiscal year 059/060 and maximum contribution is 0.047 in fiscal year 062/063. It has been seen that percentage share of income tax from

insurance companies to GDP is very low, but the growth and development of insurance business is gradually growing and its contribution is also increasing. The prospect of insurance business is emerging in Nepal. The trend of income tax from insurance companies to GDP is shown in the following figure.

Figure: 4.3



4.1.6 Contribution of Income Tax from Insurance Business to Government Revenue in Nepal.

Income Tax is a main part of government revenue in Nepal. Government enterprises, public limited companies and private companies are the main source of income tax of Nepal. The contribution of income tax from insurance business to government revenue is presented in following tables and figure.

Table: 4.7
Contribution of Income Tax from Insurance Companies to Government Revenue

(Rs. in 10 million)

Fiscal Year	Government Revenue	Income tax from Insurance Business	% of Income tax from Insurance company to government revenue.
059/60	5623.00	13.26	0.23
060/61	6233.10	16.86	.027
061/62	7012.27	17.53	0.25
062/63	7228.21	31.33	0.43
063/64	8771.21	32.72	0.37
064/65	10762.25	34.12	0.32
065/66	14347.45	34.79	0.24
066/67	16734.20	35.41	0.21
Total	76711.70	216.02	-
Average	9589	27.00	0.28

Source: 1) Economic Survey of Various Years, MOF, Nepal government.

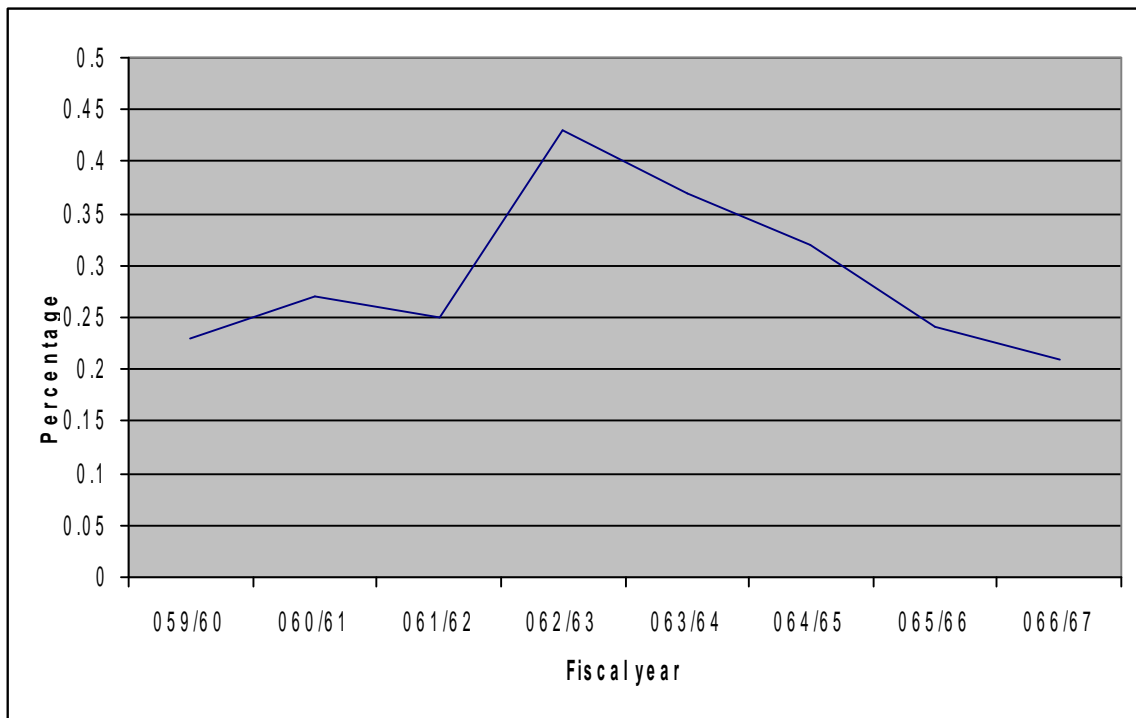
2) Annual Reports of Insurance Board (2066/067).

The table 4.7 shows the government revenue and the income tax from insurance companies both are continuously increasing. In the fiscal

year 059/060, income tax from insurance companies was 132.6 million. But in fiscal year 2066/67, the amount of income tax form insurance business is increased to 354.1 million. This is nearly three times higher than fiscal year 2059/060, where government revenue is 2.97 times higher. So the contribution of income tax from insurance business to government revenue is in increasing trend. The percentages share of income tax from insurance companies to government revenue lies between 0.23% and 0.43% during the study period. The average contribution of income tax from insurance business is 0.28%.

Figure: 4.4

Contribution of Income Tax from Insurance Companies to Government Revenue



4.1.7 Contribution of Income Tax from Insurance Business to Total Tax Revenue in Nepal.

The following table shows the income tax contribution from the insurance business to tax revenue.

Table: 4.8
Contribution on Income Tax Contribution from Insurance Business to Tax Revenue

(Rs. in 10 million)

Fiscal Year	Tax Revenue	Income tax from Insurance Business	Income tax from Insurance Business as % of tax revenue.
059/60	4090	13.26	0.32
060/61	4817	16.86	0.35
061/62	5411	17.53	0.32
062/63	9743	31.33	0.54
063/64	7113	32.72	0.46
064/65	8516	34.12	0.40
065/66	11705	34.79	0.29
066/67	13962	35.41	0.25
Total	61357	216.02	-
Average	7670	27.00	0.35

Sources: 1. Economic Survey of Various Years MOF, Nepal government.

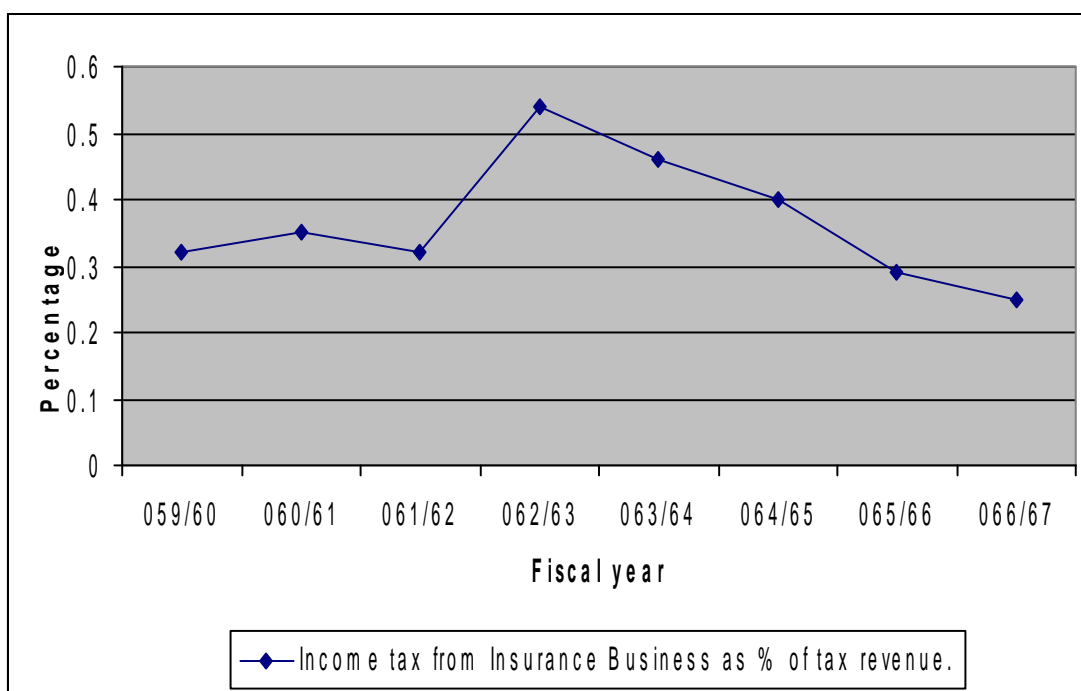
2. Annual Reports of Insurance Board (2066/067).

The table 4.8 shows the revenue and income tax from insurance business is continuously increasing per year. The percentages income tax from insurance companies to tax revenue lies between 0.25% and 0.54%

during the study period. The average contribution is 0.35% to total tax revenue of Nepal. The percentage share of income tax from insurance business in total tax revenue of Nepal is very low, but it is slightly higher than the percentage contribution to GDP and government revenue. Although income tax from insurance business is continues increasing, the percentages income tax from insurance companies to tax revenue trend up to fiscal year 062/63, then after it is fluctuating slightly. It is because the ratio of income tax revenue is higher than ratio of income tax from insurance companies.

The contribution of income tax from insurance business to tax revenue also presented in following figure. The trend line show the percentage of income tax from insurance companies to tax revenue is increasing maximum in 062/63. In aggregate, it is concluded that the income tax contribution insurance business is increasing trend.

Figure: 4.5



4.1.8 Contribution of Income Tax from Insurance Business to Direct Tax Revenue of Nepal

The following table shows the contribution of income tax from insurance companies to the direct tax revenue.

Table: 4.9

(Rs. in 10 million)

Fiscal Year	Total direct tax	Income tax from insurance business	% of Income tax from insurance to direct tax
059/60	1027.41	13.26	1.29
060/61	1021.51	16.86	1.65
061/62	1127.26	17.53	1.55
062/63	1178.70	31.33	2.65
063/64	1672.68	32.72	1.95
064/65	1014.70	34.12	1.69
065/66	2909.74	34.79	1.29
066/67	2915.00	35.41	1.21
Total	13867.00	216.02	-
Average	1733.37	27.00	1055

Sources:

1. Economic Survey of Various Years MOF, Government of Nepal.
2. Annual Reports of Insurance Boards (2066/067).

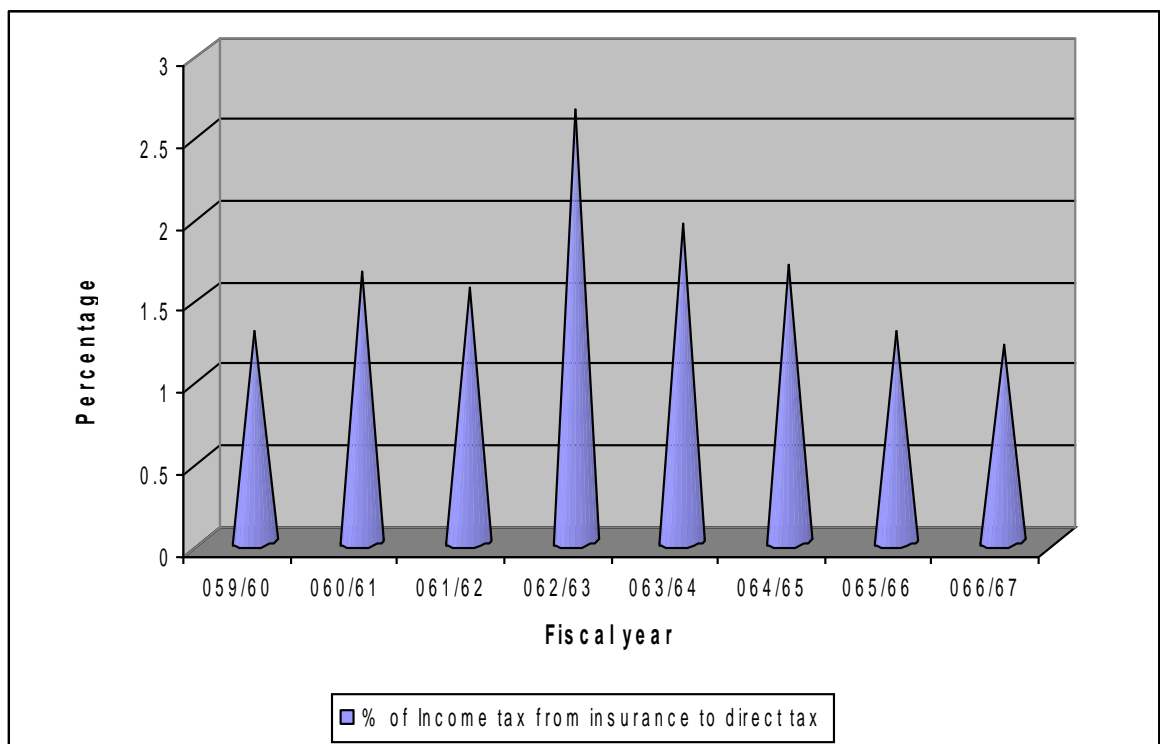
Note: - Total direct tax revenue includes:

I. Tax on property, profit and income.

II. Land revenue and registration fees.

The above table shows the percentage income tax from insurance business to direct tax revenue lies between 1.19% in fiscal year 2065/066 and 2.65% in fiscal year 2062/063 then it is slightly decline in fiscal year 063/064 and 066/067. The average percentage contribution during the study period is 1.55 %. It is higher contribution in GDP, government revenue and total tax revenue. In aggregate, the contribution of income tax from insurance business to total direct tax revenue is increasing trend. It has also presented in following figure.

Figure: 4.6



4.1.9 Contribution of Income Tax from Insurance Companies to Total Income Tax in Nepal.

Contribution of income tax from insurance companies to total income tax in Nepal is presented in table. To make clear it is also presented in figure.

Table :4.10
Contribution of Income Tax from Insurance Companies to Total Income Tax in Nepal

(Rs. in 10 million)

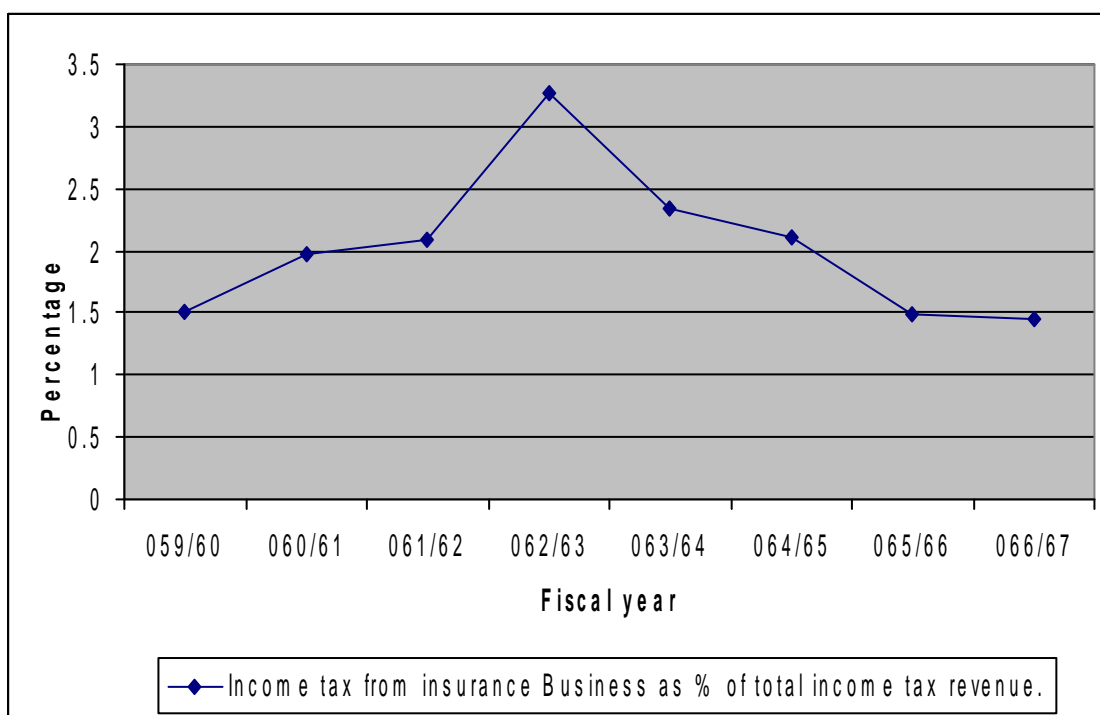
Fiscal Year	Total income tax	Income tax from insurance business	Income tax from insurance Business as % of total income tax revenue.
059/60	881.18	13.26	1.50
060/61	851.25	16.86	1.98
061/62	840.24	17.53	2.08
062/63	959.88	31.33	3.26
063/64	1395.00	32.72	2.34
064/65	1623.24	34.12	2.10
065/66	2345.73	34.79	1.48
066/67	2435.07	35.41	1.45
Total	11331.59	216.02	-
Average	1416.44	27.00	1.90

Sources:

- 1) Economic Survey of Various Years, MOF, Nepal government.
- 2) Annual Reports of Various Insurance Companies.
- 3) Annual Reports of Insurance Board (2066/067).

The above table shows the percentage income tax from insurance business to total income tax of Nepal government revenue lies between 1.45% in fiscal year 2065/066 and 3.26% in fiscal year 062/063. The averages percentage contribution during the study period is 1.90%. It is higher contribution than contribution in a GDP, government revenue, total tax revenue and direct tax revenue to Nepalese government. In aggregate, the contribution of income tax from insurance business to total income tax revenue is increasing trend. It has also presented in the following figure.

Figure: 4.7



4.1.10 Contribution of Income Tax from Insurance Business to Income Tax from Private Corporate Bodies in Nepal

The contribution of income tax from insurance business to income tax from private corporate bodies is presented in following table.

Table: 4.11

Contribution of Income Tax from Insurance Business to Income Tax from Private Corporate Bodies in Nepal

(Rs. in 10 million)

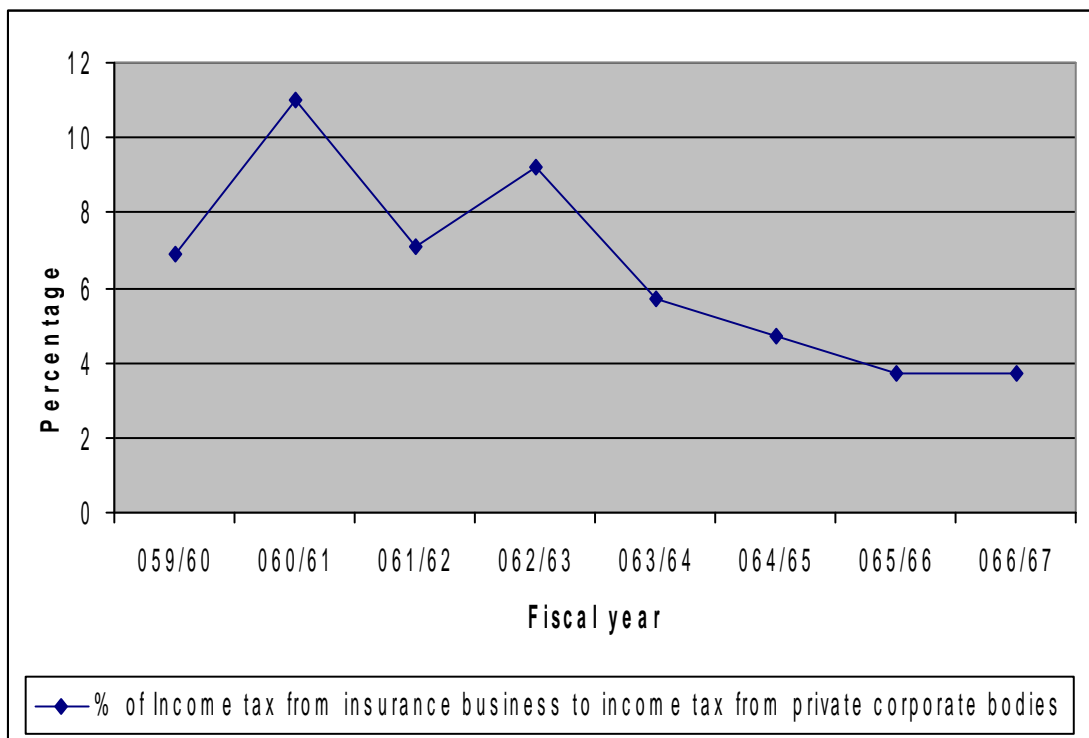
Fiscal Year	Income tax from corporate body	Income tax of insurance business	% of Income tax from insurance business to income tax from private corporate bodies
059/60	192.43	13.26	6.89
060/61	153.13	16.86	11.01
061/62	246.78	17.53	7.10
062/63	340.43	31.33	9.20
063/64	571.71	32.72	5.72
064/65	718.65	34.12	4.74
065/66	942.51	34.79	3.69
066/67	950.13	35.41	3.72
Total	4115.77	216.02	-
Average	514.47	27.00	5.24

Sources: 1) Economic Survey of Various Years, MOF, Nepal government.

2) Annual Reports of Insurance Board (2066/067).

From the above table, income tax from insurance business is lies between 3.69% and 11.01% during in the study period. The contribution of income tax from insurance business to corporate income tax from private bodies is higher than GDP, government revenue tax revenue income tax revenue. It is also shown in the following figure.

Figure: 4.8



4.2 Presentation and Analysis of Primary Data

Primary information has been collected through a schedule questionnaire and direct interview in order to find out various aspects of income tax of insurance business in Nepal. The opinions were collected from 30 respondents representing tax administrators, tax experts/policy makers and tax payers. Tax administrators are selected from various Inland Revenue Department and tax experts are from the lectures,

auditors, chartered accountant etc. Tax payers are insurance companies. The responses received from various respondents have been arranged, tabulation and analyzed in the proper way in order to facilitate the descriptive analysis of the study.

The respondents were requested to response on questionnaire by four ways.

- They were requested to response simply by yes or no response.
- They could response by ranking the choice starting from 1 to most important as per number of choice.
- Respondents had also option to put their views by writing wherever necessary.

4.2.1 Income Tax as a Suitable Means of Rising Domestic Resources

In order to know whether income tax as suitable means of raising domestic resource, a question was asked, "In your option, is the income tax a suitable means of raising domestic resources in Nepal?" The responses received from respondents are tabulated as follows.

Table : 4.12

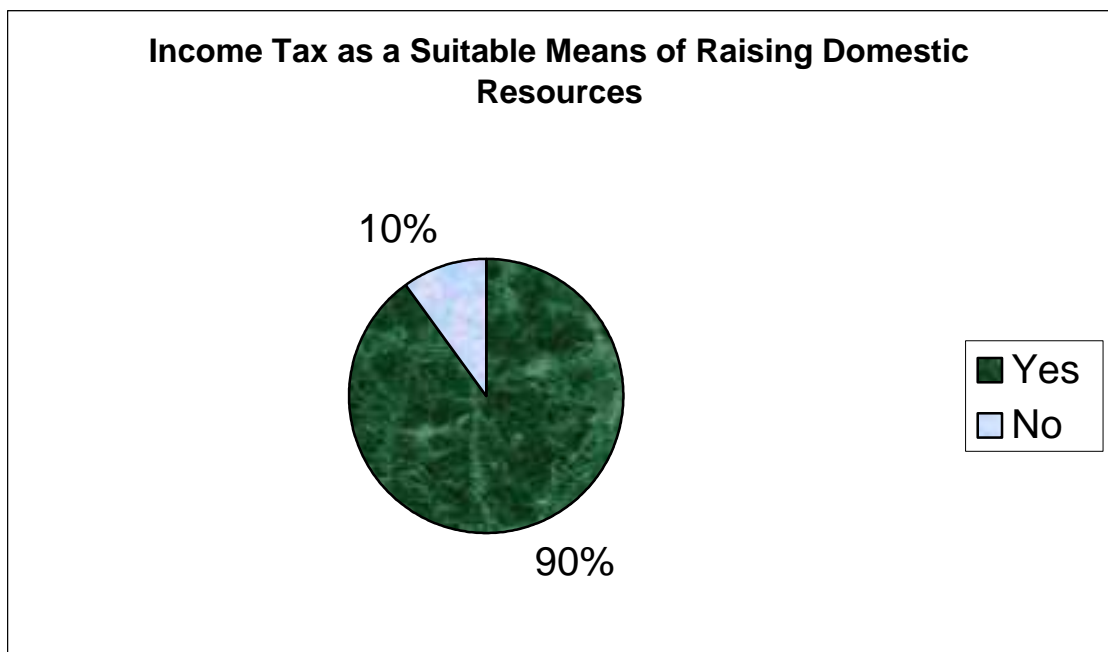
Income Tax as a Suitable Means of Raising Domestic Resources

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Administrators	10	100%	-	-	10	100%
Tax Experts	8	80%	2	20%	10	100%
Tax payers	9	90%	1	10%	10	100%
Total	27	0.90	3	0.10	30	100

Source: Opinion Survey, 2011

The question was received from all respondent, 90% of total respondent accepted the income tax, as a suitable means of domestic resource and only 10% of total respondent do not recognize income tax a suitable means of domestic resources mobilization. Thus the conclusion can be drawn that the income tax is a suitable means of raising domestic resources in Nepal.

Figure: 4.9



4.2.2 Objectives for Collecting Income Tax

In order to know the objectives for collecting income tax in Nepal, respondents were requested to rank their responses. The question was asked "which of the following objectives consider to collect income tax in Nepal?"

The following table gives the break down of responses;

Table: 4.13

Opinion Towards Objectives of Income Tax

S. N.	Goals of Income Tax	Total points received			Total	Percent	Rank
		Tax administrators	Tax exports	Tax payers			
a	Enhance the revenue of government	1	7	8	16	53.33	1
b	Promote distributive Justice	3	1	1	5	16.67	3
c	Promote private sector Investment	6	2	1	9	30	2
	Total				30	100	

Source: Opinion survey, 2011

From the above table the objectives of collecting income tax in Nepal are ranked in order of preference.

- I) Promote distribution justice
- II) Enhance the revenue of the government.
- III) Promote private sector investment.

4.2.3 Effectiveness of Income Tax System in Nepal

The most effective part of Income tax system is its effectiveness. To know about the effectiveness of Income tax system, a question was asked "Do you think that Income tax. system of Nepal is efficient ? The responses received from respondents are tabulated as follows.

Table: 4.14
Effectiveness of Income Tax System in Nepal

S. N.	Respondents	Yes		No		Total	
		No	%	No	%	No	%
a	Tax Administrators	7	70%	3	30	10	100%
b	Tax Experts	8	80%	2	20	10	100%
c	Tax payers	2	20%	8	80	10	100%
d	Total	17	56.67	13	43.33	30	100%

Source: Opinion Survey, 2011

There was 100% response received from the respondents. Majority of the respondents are agreeing with the effectiveness of income tax system of Nepal. 56.67% of total respondents are satisfied only 43.33% are not satisfied with the sound effectiveness of income tax system of Nepal. As the corollary to the earlier question was asked, "what is the major problem on income tax system of Nepal.(please rank)?"The opinions of the respondents are presented in the following table.

Table: 4.15
Major Problems of Income Tax System of Nepal

S. N.	Problems	Rank
a	Complexity in income tax policy, rates and regulation.	2
b	Inadequate government economic policy.	1
c	Lack of honest, trained and competent tax personal.	3
d	Lack of appropriate assessment procedure.	4

Sources: Opening Survey, 2011

From the above table, the major causes of unsatisfactory of soundness and effectiveness of income tax system in Nepal are ranked in order of preference.

- 1) Inadequate government policy.
- 2) Complexity in income tax policy, rates and regulation.
- 3) Lack of honest, trained and competent tax personal.
- 4) Lack of appropriate assessment procedure.

4.2.4 Contribution of Income Tax from Insurance Business to Government Revenue

The average contribution of income tax from insurance business to government revenue is 0.28% from the 8 years study period. This is very low level. A question was asked to the respondents “Do you think that contribution of income tax from insurance business to government revenue is satisfactory? The responses of the respondents have been presented in the following table.

Table: 4.16
Satisfaction Towards Contribution of Income Tax from Insurance Business to the Government Revenue

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Administrators	4	40	6	60	10	100
Tax Experts	6	60	4	40	10	100
Tax payers	8	80	2	20	10	100
Total	18	60	12	40	30	100

Sources: Opening Survey, 2011

In this opinion survey, 60% of the respondents expressed that contribution of income tax from insurance business to government revenue is satisfactory level and 40% of the respondents express not satisfactory. The most to the respondents thought that the insurance business is just growing up in Nepal. And they agreed that the insurance business is contributing to the government revenue gradually.

There are 40% respondents who are expressed that the contribution of income tax from insurance business to government revenue is unsatisfactory. In case of unsatisfaction, the researcher has requested them to rank the related causes of unsatisfaction with the help of a question. "If no, what are the causes of unsatisfactory? Please rank. In this regard the opinions of the respondents are as follows:

Table: 4.17

Causes of Unsatisfactory with Contribution of Income Tax from Insurance Business to Government Revenue

Major cause	Ranks
a) Defective Income tax policy, rules and regulation.	4
b) Inadequate government economic policy.	3
c) Small size of Insurance business.	1
d) Lack of stable political condition.	2

Sources: Opening Survey, 2011

From the above table, the major causes of unsatisfactory contribution of income tax from insurance business to government revenue are ranked in order of preference.

- I) Small size of insurance business.
- II) Lack of stable political condition.
- III) Inadequate government economic policy.
- IV) Defective Income tax policy rules and regulation.

4.2.5 Congenial Environment to Insurance Business in Income Tax Paying Process

The responses of the respondents of the question, "Do you that Nepal government is providing a congenial environment to insurance business in income tax paying process?" Have been presented in the following table.

Table: 4.18

Congenial Environment to Insurance Business in Income Tax Paying Process

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Administrators	10	100	-	-	10	100
Tax Experts	6	60%	4	40%	10	100
Tax payers	3	30%	7	70%	10	100
Total	19	63.33	11	36.67	30	100

Source: Opinion Survey, 2011

In the opinion survey, 63.33% respondents' response that the government is providing a congenial environment to insurance business in income tax paying process. But 36.67% respondents are not satisfied with the environment providing by government to insurance company in income tax paying process.

4.2.6 Corporate Tax Rate for an Insurance Business

The following table is related to the responses of respondents for the "question what should be the corporate tax rate for an insurance business?"

Table: 4.19

Soundness of Existing Corporate Tax for an Insurance Business

Respondents	Present rate 30%		Prescribed 20%		Total	
	No	%	No	%	No	Total
Tax Administrators	10	100	-	-	10	10
Tax Experts	8	80	2	20	10	100
Tax payers	4	40	6	60	10	100
Total	22	73.33	8	26.67	30	100

Source: Opinion survey, 2011

In the opinion survey, the table is clear that 73.33% of the respondents are in favor of present corporate 30% and 26.67 of the respondents suggested that the present corporate tax is high, they also paid VAT, so the corporate tax should be prescribed to 20%.

4.2.7 Necessity of Similar Income Tax Rate for Insurance Business and Other Corporate Bodies

In order to know whether corporate income tax rate for the insurance business and other company should be same, a question was asked "Do you agree that corporate income tax rate for the insurance and other company should be same"? The response was as presented in the following table.

Table: 4.20

Opinions as Similar Tax Rate to all the Companies

Respondents	Yes		No		Total	
	No	%	No	%	No	Total
Tax Administrators	1	10%	9	90%	10	100
Tax Experts	3	30%	7	70%	10	100
Tax payers	8	80%	2	20%	10	100
Total	12	40%	18	60	30	100

Source: opinion survey

From the table it is clear that 40% respondents are in favor of the corporate income tax of insurance business and other company should be same and 60% of respondents express their views that the corporate income tax of insurance business and other company shouldn't be same.

4.2.8 Major Factors Which Increase the Contribution of Income Tax from Insurance Company

In order to know the major factors which increase the contribution of Income tax from insurance business a question was asked "what factor should be initiated to increase the contribution of income tax from insurance business?" The respondents were requested to rank their answer according to prefer complexity in income tax policy, rates and regulation. etc. The responses of the respondents are as follows.

Table: 4.21

Major Factor Which Increase to Contribution of Income Tax from Insurance Business to Government Revenue

S. N.	Major causes	Rank
a	Increase the size of Insurance business	1
b	Reform the Income tax policy rules and regulations.	2
c	Effective imposition of fine and penalty system.	4
d	Effective tax Administration	3
e	Others.	5

Sources: opinion survey

There was 100% response received from the respondent. Most of the respondents are supporting to increasing the size of insurance business from the responses received, reform the income tax policy rules and regulations, effective tax administration and effective imposition of fine and penalty system gets 2nd, 3rd and 4th rank respectively. In other factors some suggests to make aware about insurance and compulsory provision of insurance business.

4.2.9 Problem and Difficulties in Income Tax Collection and Assessment Procedure from Insurance Business

A question "has you found any problem in income tax collection and assessment procedure of Income tax from insurance business? Was asked to know the problem and the response received on it are as follows.

Table: 4.22

Problem in Income Tax Collection and Assessment Procedure from Insurance Business

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Administrators	4	40	6	60	10	100
Tax Experts	3	10	7	70	10	100
Tax payers	5	50	5	50	10	100
Total	12	40	18	60	30	100

Source: Opinion Survey, 2011

The question was asked to tax administrator, tax experts and tax payers 60% of the received responses did not found any problem in income tax collation and assessment procedure from insurance company. Other 40 argue that there is problem in income tax collection and assessment procedure in Nepal. The question also asked for specific the problems in income tax collection and assessment procedure and the received problem are as follows.

- There is different method are assessing income between Beema Samiti and tax office.
- Insurance is a separate type of business, governing body rules; it is not justify to assessment the income tax like other business.
- Not audit in time.
- Regarding provision for outstanding claims and unexpired risk reserve as per act, 2058 is not clear.

4.2.10 Suitable Income Tax Rate for Insurance Business

To know the respondents attitude towards tax rate, a question was asked “In your opinion, which income tax rate is suitable for insurance business?” The responses have been tabulated in the following table.

Table:23

Suitable Income Tax Rate for Insurance Business

Respondents	Progressive		Propositional		Regressive		Total	
	No	%	No	%	No	%	No	%
Tax Administrators	7	70	3	30	-	10	10	100
Tax Experts	5	50	4	40	1	-	10	100
Tax payers	4	40	5	50	1	10	10	100
Total	16	53.33	12	40	2	6.67	30	100

Source: Opinion Survey, 2011

From the above table it is clear that 53.33% of respondents are in favor of progressive income tax rates, 40% express their views in favor of proportional income tax rate and only 6.67% of total respondents suggests for regressive income tax rate for insurance business.

4.2.11 Appropriateness of the Provisions for Insurance Business Under ITA 2058

A question was asked. "Are the provision regarding to insurance business under ITA 2058 reasonable? This question has been asked to under stand the appropriateness of income tax act 2058 and regulation, 2059 for insurance business. The responses of the responds to respondents for this question have been presented in the following table.

Table: 4.24

Appropriateness of Income Tax Act 2058 for Insurance Business

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Administrators	6	-	4	40	10	100
Tax Experts	3	30	7	70	10	100
Tax payers	1	10	9	90	10	100
Total	10	33.33	20	66.67	30	100

Source: Opinion Survey, 2011

From the above table 66.67% of the respondents in aggregate, all the provision of income tax act, 2058 for insurance business are not appropriate. However, 33.33% respondents have been agree with the statement. Based on the responses of the majority of the respondents, it can be said that all the provisions in the act are not appropriate for insurance business. The question also asked for specify the provision of income tax which is reasonable which given below.

- This act specifies which incomes are taxable and which incomes are taxes free for computing taxable income.
- There are provisions after global completion rising in insurance business.
- Provision for unexpired reserve.
- Provision for unsettled outstanding claims is reasonable.

4.2.12 Tax Amount Paid by Insurance Company

To know which type of insurance company pay more amount of tax a question was asked "which type of insurance company pays more amount of tax?" The responses of the respondents for this question have been presented in the following table.

Table: 4.25

Higher Tax Payer Insurance Company

Respondents	Life		Non life		Total	
	No	%	No	%	No	%
Tax Administrators	3	30	7	70	10	100
Tax Experts	3	30	7	70	10	100
Tax payers	4	40	6	60	10	100
Total	10	33.33	20	66.67	30	100

Source: Opinion Survey, 2011

The table depicts that 66.67% of the respondents have agreed with the statement that non life insurance companies in aggregate pay more amount of tax. However act of total, 33.33% respondents were of the view that individually life insurance company may pay more non life insurance.

4.2.13 Problems Faced by the Insurance Company

A question was asked "In your thinking what types of problem are facing by the insurance business while paying income tax?"

Table: 4.26

Problems Faced by the Insurance Company

S. N.	Problems	Rank
a	Consuming unnecessary time	4
b	Expectation illegal Incentives	3
c	Vague provisions Income tax laws	1
d	Lengthy process	5
e	Lack of cooperation by tax administrator	2

Source: Opinion Survey, 2011

From the above table it is clear that vague provision income tax laws is the main problem facing by the insurance business while paying income tax. Lacks of the co- operation by the tax administrator the second problem are facing by insurance business. After than expectation illegal incentives by tax personnel. Is the third problem, consuming unnecessary time and lengthy process respectively are the main problem for insurance business.

4.2.14 Suggestion to Increase Income Tax from Insurance Business

On the behalf of the question "Do you have any suggestion to increase income tax from insurance business "? The insurance managers and tax experts have been given some suggestions which are as follows:

Table: 4.27

Suggestion to Increase Income Tax from Insurance Business

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Administrators	6	-	4	40	10	100
Tax Experts	3	30	7	70	10	100
Tax payers	1	10	9	90	10	100
Total	10	33.33	20	66.67	30	100

Source: Opinion Survey, 2011

- Need of high level of development growth of insurance business in Nepal.
- Providing government incentives and facilities to the insurance sector.
- Timely submission of returns is necessary.
- Timely audit and proper book and accounting are needed.
- There should be transparent management system.
- Economic and political conditions of the country should be improved.

4.2.15 Major Steps to be Needed to Improve the Income Tax Collection from Insurance Business

On the behalf of the question "what major steps should be taken to improve the income collection policy in Improve in insurance business?" The tax experts and management of insurance companies gives some suggestions.

- A unit should be opened for insurance industry so that a vague environment could be managed for a good working and maintaining standers.
- By amending the income tax act
- Paucity of adequate capital investment in insurance sector.
- Dearth of efficient personal
- Tax refund procedure should be simplified.

4.3 Major Finding

Though the detailed observation have been analyzed and results there of have been discussed in the earlier sections 4.1 and 4.2 the major finding have been summarized in this section.

4.3.1 Finding from Secondary Data

Secondary data have been presented and analyzed by using various mathematical and statistical tools to analyze contribution of insurance business on income tax to government Revenue in Nepal. The major findings from the analysis of secondary data have been presented below.

- 1) There are altogether twenty five insurance companies in Nepal till the end of fiscal year 2066/67 out of these, eight insurance companies are life insurance business, and sixteen insurance companies are non life insurance business and one life and non life insurance business. Though the insurance market is very small in Nepal its contribution is in increasing trend. After becoming the nation a member of WTO, it is generating the open market all around the world. If the nation provides relevant rules and regulation, efficient personal and adequate capital to investment, the prospect of insurance business is very bright in Nepal.
- 2) Though insurance premium was small in the initial years, it was found in increasing trend both life and non life insurance business. Annual percentages increase in insurance premium from fiscal year 2059/060 to 2066/67 was 15.06% ,10.18%, 21.08%, 14.14%, 18.63%, 15.96%, 27.58%, 41.20% . The maximum contribution of insurance premium in GDP is fiscal year 2066/067.
- 3) Contribution of insurance premium to GDP only from non agriculture sector was in increasing trend during the eight years study period. The average contribution is 2.40% during the study period. The maximum contribution is 4.02% in the fiscal year 2066/67 .So the insurance business is an important business for increased Gross Domestic Production.
- 4) The income tax from insurance companies to GDP lies between 0.027 to 0.047 in fiscal year 2059/060 and fiscal year 2062/063 respectively. The percentages of income tax from insurance business in GDP low and increasing trend.

- 5) The maximum contribution of income tax from insurance companies to government revenue, total tax revenue. Direct tax revenue, total income tax and income tax from private corporate body in Nepal are 0.43 in fiscal year 2062/063, 0.54%, in fiscal year 2062/063, 2.65%, in fiscal year 2062/063, 3.26%, in fiscal year 2062/062 and 11.01% in fiscal year 2060/062 respectively it is clear that maximum contribution of income tax from insurance companies to government is in fiscal year 2062/063.
- 6) The contribution of income tax from insurance business in Nepal was found low. But the growth and development of insurance business is gradually growing and its contribution is increasing. The prospect of insurance business is emerging in Nepal.
- 7) The contribution of insurance business of income tax was highest 0.26% in fiscal year 2062/063. Again in fiscal year 2063/064, and 2064/65 it remains 2.34 and 2.10% .The reason may be the internal conflicts and unstable government.

4.3.2 Finding from Analysis of Primary Data

Primary data have been collected and analyze to know the adequacy and appropriateness of legal aspects of tax laws regarding the contribution of insurance business in Nepal. The major finding from the analysis of primary data are presented below.

- 1) Income tax is a suitable means of raising domestic resource. It may enhance government revenue 90% respondents are agreeing with this.
- 2) According to the respondents specific goal should be promote distributive justice, enhance the revenue of government, and promote the private investment.
- 3) Majority of the respondent i.e. 56.67% are agreeing with sound and effectiveness of income tax system of Nepali major problem in of income tax was inadequate government economy policy, complexity in income tax policy rule and regulation, lack of honest, trained and competent tax personnel lack of appropriate assessment procedure.
- 4) The insurance business in Nepal is just growing up. From the increasing this sector people are having with this business sector. According to most of respondents i.e. 60%, contribution of income tax from insurance business to government revenue is satisfactory level.
- 5) Some respondents who are unsatisfied with contribution of income tax from insurance business to government agreed with the following causes, small size of insurance condition, inadequate government economic policy defective income tax policy, rules and regulations.
- 6) Most of the respondent 63.33% agreeing that Nepal government is providing congenial environment to insurance business in income tax policy process.
- 7) Most of the respondents i.e. 73.33% are satisfied with existing present corporate tax rate, according to tax administrator and tax experts, most of the tax payers the existing corporate tax rate charge as insurance

business is not appropriate because this sector is service business and only just growing up, so, the corporate tax should be decreased.

- 8) Most of respondent, i.e. 60% disagreeing that the corporate tax rate for the insurance and other company should be same.
- 9) Most of the respondents are agreeing increasing the size of insurance business reform the income tax policy rules and regulations, effective tax administrators' effective imposition of fine and penalty system to make were about insurance and compulsory provision of insurance business should be initiated to increase the contribution of income tax from insurance business.
- 10) 61.91% of respondents did found some problem in income tax collection and assessment procedure from insurance business in Nepal. The main problems are
 - i. Dual provision between insurance board and tax office
 - ii. Not audit in time
 - iii. Unclear provision for un-settle outstanding claims and unexpired risk reserve.
 - iv. The tax rules and act does not justify to assessment the income tax like other business.
- 11) 100% respondent are satisfy with the self assessment method is the more appropriate for insurance business.
- 12) 57.17% of respondents are satisfied with progressive tax rate.

- 13) All the provision regarding to insurance business under ITA 2058 in Nepal are not reasonable. The tax has clear interpretation of which is table income or not, there are provision after competition rising in insurance business, provision for unexpired reserve and unsettle outstanding claims is enough. .
- 14) As compared to non life insurance in total, life insurance business pay less amount of income tax. Low contribution of life insurance in corporate tax is due to less then non life insurance companies.
- 15) The major problems are vague provision. Of income tax laws lack of cooperation by tax administrator, expectation illegal incentives by tax personnel consuming unnecessary tie lengthily process by the insurance company white income tax.
- 16) The received suggestion to increase income tax from insurance business, high development growth of insurance business, government incentives and facilities in the insurance sector timely submission of returns, timely audit and proper book keeping and accounting transparent management system and stable economic and political condition.
- 17) A unit should be opened for insurance business so that a vague environment could be managed for a good working and maintaining standards amended the income tax act, dearth of efficient personnel paucity of adequate capital investment in insurance sectors, tax refund procedure should be simplified are the major steps should be taken to improve the income tax collection policy in insurance business.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the final chapter of the research which consist of three sections; summary, conclusions and recommendations.

5.1 Summary

This research work entitled “A study on contribution of insurance business on income tax to government revenue” has been conducted to analyze the contribution of income tax of insurance business in the government revenue of Nepal and examine the appropriateness of tax system to develop insurance business in Nepal. The whole research report has been divided into five chapters and contents of this chapter are as follows:

Chapter One: Introduction

Chapter Two : Review of Literature

Chapter Three: Research Methodology

Chapter Four: Presentation and Analysis of Data

Chapter Five : Summary, Conclusion and Recommendation

The first chapter describes briefly insurance business in Nepal and deals on statement of problems, objectives, significance, limitation and organization of the study.

In the second chapter theoretical review has been made. This chapter describes taxation and tax laws in Nepal, covers legal aspects of

computation of business income and presents special provisions relating to taxation of insurance business in Nepal. Review of related studied: review of books and review of previous thesis and dissertations have also been incorporated in this chapter.

The third chapter describes a framework of presentation and analysis of data. It deals on research design, population and sample source of data, data collection techniques, data analysis tools and methods of presentations and analysis.

The fourth chapter is the main body of the research report and it has two main sections viz. Presentation and analysis of data and findings of the study. Both primary and secondary data have been presented and analyzed using various mathematical statistical tools as per the nature and needs of data presentation and analysis. Major findings thereon have also been presented in the section.

The fifth i.e. last chapter, summary of the whole research report has been tried out and conclusion based on findings from the analysis and presentation of data and recommendations for enhancement and betterment of insurance business in Nepal have been built in.

5.2 Conclusion

This research study is not far from different types of constraint. Time and resource are the main constraint of the study. Therefore, the study could not be generated in all cases. Accuracy depends on the collected data and provided data from various organizations and respondents. On the basis of data presentation and analysis, following conclusions have find out.

Insurance business is the burning service business in Nepal. This business is increasing gradually. Now 25 insurance companies and its branches are operating in all over the Nepal. After the government liberalized economic policy, Nepalese insurance business has open for private sector and after the membership of WTO this business is accessible foreign insurance market. Thus there is bright future of insurance business in Nepal.

The study shows that the contribution of income tax from insurance business to GDP, to government revenue, to tax revenue to direct tax revenue, to total income tax revenue to total income tax from corporate bodies all are increasing trend during the study period. The contribution of insurance premium to government is also increasing trends so that, insurance business is one of the major business in our developing country.

Currently, investment insurance business is imposed at tax rate of 25% and general insurance at the rate of 30% taxing of general insurance business with such higher tax rate was found not satisfactory to tax practitioners and tax payers. Both types of insurance companies should be taxed at the same tax rate so that harmonious relationship among insurance could be developed and healthy completion could exist in the market. Thus, it would be better if both types of insurance business were taxed at equal rates.

Most of the people are ignorant about the knowledge of the insurance. So it is necessary to get knowledge and awareness of people about insurance and government should take care to this business in time. Insurance business is a service business and it needs tax rebate facilities and other business.

After becoming a member of WTO, Nepalese business market rise many opportunities and challenges. To get the opportunities in this insurance business, government should get ready to generate efficient personal create adequate capital to investment, ready to global completions.

All the provisions of Income Tax Act, 2058 and regulation, 2059 for income tax of insurance business in Nepal are not appropriate. The new tax act has certainly some vague provision regarding income tax.

Under the rule of the insurance act, 2049 non life insurance co. Must make a provision of amount equal to 115% of the amounts of outstanding in consideration of payment against claims lodged by an insured before the expiry of each financial year. Thus, a net outstanding claim at the end of the year is recognized as revenue exposes of the current year. However 15% of this provision for claim is intimated but to report (IBNR), such amount is excluded from deduction purpose of taxable income. But according to tax office, since outstanding claims are provisions, these can not be allowed to deduct for taxable income. Thus they were found against the prevailing accounting principles.

Under the section 21(1)(f) of the Income Tax Act 2058 " any other amount shall be disallowed to deduct for the purpose of income tax through they are not expressly denied by other provisions of the law." This provision creates a situation to disallow any expenses by an assessing officer as discretion. Thus it can be concluded that such provision should be removed from the law.

5.3 Recommendations

Based on the major findings and conclusions, some recommendations are made to raise the contribution of income tax from insurance business. These recommendations will also help for the correction of tax and insurance laws and policies.

1. For growth and development of insurance business, first the government should pay great attention for the peace, security and stability of political situation. Then the government should give incentives and facilities to insurance business.
2. Lack of adequate experience on the part of underwriters, agents, brokers and surveyors is another serious problem for the development of insurance business in Nepal. The Insurance Board must conduct training, organize conferences and seminars in consultation with insurance companies properly and time to time to make concerned persons competent and skilled to grow and extend insurance business.
3. These are some fields where insurance is important, there should be compulsory provision of insurance, such as people's health, goods transportation. The people should insure themselves compulsorily if they have capacity otherwise, the government should manage the facilities of insurance.
4. Lack of knowledge on the part of people about insurance seems to be the main problem for the development of insurance business in Nepal. Thus education related to insurance has to be compulsory and adequate.

5. Insurance companies should be inspected supervised and monitored effectively in time. Nepal Rastra Bank, Insurance Board and Office of the Company Register should give reasonable directions to the insurance companies.
6. All the vague provision is in the insurance law should be clearly interpreted to reduce problems between Insurance Board and insurance companies.
7. For the efficient Nepalese income tax system, discretionary power of tax officers should be curtailed in the act and income tax assessment process should be increased.
8. Nepal is a member of WTO. So, the insurance business should also go forward for globalization. Then, this business would have faced many opportunities and challenges. To get the opportunities in this insurance business the government should get ready to generate, efficient personnel, create adequate capital to investment, ready to global competition.
9. The Insurance Board should monitor the insurance companies and ranking the positions according to their efficiency and effectiveness.
10. It is also suggested that the tax refund procedure should be simplified necessary efforts should be made to make maximum tax payers honest and come them under tax bracket in order to increase income tax collection.
11. Payments for agent commission, insurance service charge and medical fee are made by the person not as insurance and this these there should be allow able to deduct for the purpose of income tax.

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APPENDIX-I

Questionnaire

Name:

Designation:

Office/Organization:

Occupation:

Please tick () the suitable answers of your choice from following questions of wherever appropriate please rank them in order of preference from 1 to last number. Number 1 stands for the most important and the last number for least.

1. In your opinion, is the income tax a suitable means of raising domestic resource in Nepal?

a) Yes b) No

2. Which of the following objectives should be adopted in income tax system of Nepal?

a) Enhance the revenue of the government

b) Promote distributive justice

c) Promote private sector investment

d) Others (please specify)

.....
.....

3. Do you think that income tax system of Nepal is sound and efficient?

a) Yes b) No

If no, what is the major problems of income tax system of Nepal?
(Please ranks).

a) Complexity in income tax policy rule and regulation.

b) Inadequate government economic policy

c) Lack of honest, trained and competent tax personnel

d) Lack of appropriate assessment procedure

e) Other (please specify)
.....
.....

4. Do you think that contribution of income tax from insurance business to government is satisfactory?

a) yes b) No

If no, what are the causes? (Please rank)

- a) Defective income tax policy, rules and regulation
- b) Inadequate government economic policy
- c) Small size of insurance business
- d) Lack of stable political condition
- e) Other (please specify)
.....
.....

5. Do you think that Nepal government is providing a congenial environment to insurance business in income tax paying process?

a) Yes b) No

6. What should be the corporate tax rate for an insurance business?

- a) Present rate in percent 30%
- b) Prescribed rate (please specify in percent)
.....

7. Do you agree that corporate income tax rate for the insurance business and other company should be same?

a) Yes b) No

8. What factor should be initiated to increase the contribution of income tax from insurance business? (please rank)

- a) Increase the size of insurance business
- b) Reform the income tax policy rules and regulations.

c) Effective imposition of fine and penalty system

d) Effective tax administration system

e) Other (please specify)

.....

.....

9. Have you found any problems and difficulties in income tax collection and assessment procedure from insurance business?

a) Yes b) No

If yes, please specify

.....

.....

.....

10. In your opinion, which income tax rate is suitable for insurance business?

a) Progressive

b) Proportional

c) Regressive

11. Are the provision regarding to insurance business under ITA 2058 reasonable?

a) Yes b) No

If yes, Please specify

.....

.....

12. Which type of insurance company pay more amount of tax?

a) Life b) Non life

13. In your thinking what types of problems are facing by the insurance business while paying income tax?

b) Consuming unnecessary time

c) Expectation illegal incentives by tax personnel

d) Vague provisions income tax laws

e) Lengthy process

f) Lack of co-operation by tax administer

g) Other (please specify).....

.....

14. Do you have any suggestion to increase income tax from insurance business to government revenue?

h) Yes b) No

If yes, please specify

.....

.....

15. What major steps should be taken to improve the income tax collection policy in insurance business?

.....

.....

APPENDIX –II

List of Respondents

A. Tax Payers

S.N.	Name	Position	Organization
1	Karuna Bhetwal	Asst. Manager	N.B. Insurance
2	Suraj Bhattra	Asst. Manager	Alliance Insurance
3	Bipin Kumar Lal	Senior Officer	LIC (Nepal) Ltd.
4	Man Bahadur Dhakal	Senior Officer	Oriental Insurance
5	Jivan Kumar Upreti	Asst. Manager	Prudential Insurance
6	Dilli Prasad Thapaliya	Manager	United Insurance
7	Ishwor Bahadur Adhikari	Manager	Nepal Insurance
8	Sudyumna Upadhaya	Manager	Everest Insurance
9	Tika Ram Paudel	Manager	ALICO
10	Rajan Chitrakar	Manager	Shikhar Insurance

B. Tax Experts

S.N.	Name	Position	Organization
1	Raju Kumar Sibakoti	FCA	JBRH and Co.
2	Jagadish Agrawal	FCA	JBRH and Co.
3	Bhanu Sharma	FCA	JBRH and Co.
4	Hari Kumar Silwal	FCA	JBRH and Co.
5	Ranjit Kumar Yadav	FCA	CAI
6	Bashu Sharma	CA	Sibakoti and Associate
7	Shekhar Kharel	CA	Sibakoti and Associate
8	Yuddha Oli	CA	PYC
9	Mahesh Rimal	CA	PYC
10	Bikram Pandey	Lecturer	Public Youth

C. Tax Administrator

S.N.	Name	Position	Organization
1	Mohan Singh Basnet	Chief Tax Officer	Lazimpat Sector 3
2	Tulasi Aryal	Tax Officer	Lazimpat Sector 3
3	Kishwor Bartaula	Tax Officer	Babarmahal Sector 2
4	Rishi Ram Pokheral	Chief Tax Officer	Babarmahal Sector 2
5	Tulasi Dhakal	Tax Officer	Babarmahal Sector 1
6	Ramesh Dhakal	Tax Officer	Babarmahal Sector 1
7	Dhruba Regmi	Tax Officer	Babarmahal Sector 2
8	Dilip Kumar Adhikari	Tax Officer	Babarmahal Sector 1
9	Yadav Prasad Upreti	Tax Officer	Babarmahal Sector 2
10	Bhola Raj Acharya	Tax Officer	Lazimpat Sector 3

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