

A Study on the Income Tax Problem of Manufacturing

Industries of Nepalgunj Industrial Estate

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Article Information : Received : June 07, 2025 Revised : June 19, 2025 Accepted : July 10, 2025

Abstract

A tax imposed on income is called income tax. It is divided into two parts: Individual income tax and corporate income tax. The Income Tax Act of Nepal was revised eight times. It has made a significant contribution to Nepal's economic development. According to this research, sixty per cent of the respondents believe that the Nepalese income tax system is ineffective. Only forty per cent of those present thought that it was effective. The significant problems with income tax include frequent changes to the income tax act, Corruption, a lack of systematic evaluation and control mechanisms, and others.

Key words: *Income Tax, Economic, Development, Believe, Change.*

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ISSN : 2091-2161

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Published by Autar Dei Chaudharain Research Centre (ADCRC), Mahendra Multiple Campus, Nepalgunj, Banke

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INTRODUCTION

A tax imposed on income is called income tax. Income tax is divided into two parts: individual income tax and corporate income tax. Corporate income tax was first introduced in the United States in 1909. The budget for 2008 B.S. states the introduction of an income tax system in Nepal. However, it was not until 2017 that the introduction occurred, when the Finance Act 2016 and the Business Profits and Remuneration Tax Act 2017 were enacted. The Finance Act 2017 was replaced by the Income Tax Act 2019. It was replaced by the Income Tax Act 2031.

The Income Tax Act 2031 was revised eight times: in 1977, 1979, 1980, 1984, 1985, 1986, 1989, and 1992. Since 19th Chaitra 2058, the Income Tax Act 2058 has been introduced in Nepal to avoid the defects of the Income Tax Act 2031.

In the present context, industrialization is a crucial factor in achieving a country's fundamental economic and social objectives. There is no doubt that industry and trade are the two key drivers of economic development. The country's current taxation policy has significantly impacted the current status of growth achieved in Nepal's industrial sector. Moreover, taxation policy also includes, besides levies, other incentives and subsidies for promoting the business sector. In short, taxation should provide a proper balance between levies and incentives.

Economic development is not possible unless industrialization occurs. Industrialization is a key indicator of a country's prosperity. It generates government revenue. In the form of direct tax and indirect tax, which are further deployed for industrial development, and in turn, accelerate the pace of economic growth.

The government of Nepal began to emphasise industrialisation under the auspices of development plans after the country transitioned to democracy in 1951. Since then, Nepal has gained extensive experience in formulating and implementing development plans over the course of more than four decades. A three-year interim plan also came into existence instead of a plan-holiday. In that plan, special provisions are made for industries in financial distress. Industrialization is a form of economic growth. The government should emphasize promoting private sector investment. The government has always sought to accelerate the pace of industrial development through privatization.

Nepalgunj Industrial Estate was established in 2030 with the assistance of Indian aid, spanning a total area of 233 Ropanis and employing a workforce of 850. Initially, the Nepalgunj industrial estate was managed by the Nepal Industrial Development Corporation. From the date of Sharwan 1, 2045, it was managed by Industrial District Management Limited. Nepalese companies, in general, have been taking advantage of the tax benefit in their strategic planning, project planning, and operational planning decisions. Besides these, there are some tax provisions under the Income Tax Act and the Industrial Enterprise Act, which require amendment.

Based on impact and incidence, the tax may be classified into two types:

- Direct Tax
- Indirect Tax

A direct tax is paid by the person on whom it is legally imposed. An indirect tax is imposed on one person but paid, in whole or in part, by another. Indirect taxes are generally imposed on goods and services.

Income tax is a direct tax. It is imposed on the earnings of individuals and corporations. The underlying purpose of imposing income tax is to generate more revenue to finance development activities and to contribute to achieving social justice. It helps in achieving social justice. It facilitates the redistribution of economic means by transforming wealth from individuals with higher economic levels to those with lower economic levels. Regional economic imbalance may also be reduced by providing incentives and concessions in income tax for promoting industries in backwards areas. The income tax system of Nepal needs to be reviewed, and immediate corrections should be made. The significant elements of the income tax system are: income tax law, policy and its management.

Objectives of the Study

The main objectives of the study are:

To evaluate the effectiveness of the present taxation policies of Nepal, and

To identify the income tax issues faced by industries located in the Nepalgunj Industrial Estate.

Hypothesis of the study

No hypothesis has been assumed. Conclusions have been drawn after analyzing the collected data using simple tables. A descriptive method was used to analyze and interpret the collected data.

Research Methodology

Research Design

Most of the data and information in the study concerned the opinions, experiences, and performance of the respondents. This study employs a descriptive, analytical, true experimental, and field study research design to obtain the required information, data, and opinions.

Source of Data

Mainly, the primary source of data and information has been used in this research. Some important sources of primary data include opinion surveys conducted through questionnaires and interviews, as well as field visits and mailing information to respondents.

Population and Sample

It is a challenging task to study the universe. A sample study has therefore been conducted. To fulfil the objective, 15 industries out of 35 were selected for this study. Out of these, six industries are the plastic industry, four are the metal industry, four are the food processing industry, and one is the wood processing industry.

Tools for Data Presentation, Interpretation and Analysis:

Simple statistical tables have been used to present, analyze and interpret the collected data.

Review of literature

Evolution of income tax in Nepal:

The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democratic political system was introduced. In the subsequent years, an attempt was made to introduce income tax. In 1959, the first elected government finally introduced income tax. The main objectives for introducing income tax were to generate more revenue to finance development activities and to promote social justice through income redistribution.

Rup Bahadur Kahdka (1994) had presented a book named 'Nepalese taxation path for reform'. In this book, he described Nepal's economic policy, including VAT as a long-term tax for the country. Improving tax administrations and tax reform strategy. He had identified the significant problems of tax administration. They faced a weak tax administration, an imbalance in tax administration, inadequate organizational patterns, a debatable scope of the revenue investigation department, a lack of adequate information systems, a lack of sound tax policy, and insufficient physical and other facilities.

Firstly, in 1965, Mr. Kedar Bahadur Amatya published a book titled 'Nepal ma Ayakar Bebastha'. This study describes Nepal's income tax system. He analyzed the legal aspects of income tax law.

Manidev Bhattarai had critically analyzed the income tax facilities provided by the Industrial Enterprise Act 2049 in his draft 'Income tax facilities provided by the Industrial Enterprise Act 2049', an analysis. He had described the facilities given to the industries. He had critically analyzed these facilities offered to the sectors; a continuous 7-8 year exemption from income tax will foster the tradition of obtaining exemption through incorporation in a legal manner. The deduction allowed for modernization of industry, pollution control devices, technology, and product development, etc., will protect only big industries. It will not affect the small industries.

Dr. Rup Joyti expressed his view on "Effect of VAT on Nepalese Industry". According to Dr. Jyoti, VAT affects three aspects. Pricing, stamping on bills, and about taxing. He also wrote

that, yet there is no change in tax administration. They thought that industrialists only evade the tax; there should be an improvement in the VAT refund procedure. He also concluded that VAT now has a positive effect on the industry. Hence, there should be an improvement in tax administration by changing their mentality.

Mr. Pai conducts a detailed analysis of the tax system's impact on various industries. He concluded that the numerous taxes they have to pay, the first and foremost being excise duty, which in recent years has assumed great importance due to the progressive rise in rates. Today, most of these industries have not only raised prices in proportion to the increase in excise duty, but also increased them beyond this threshold. However, in many cases, prices have fallen due to internal competition and the inability of these industries to hold stocks for any extended period.

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

Amrit Regmi had expressed his view that Nepalese industries are facing so many problems and challenges. In 2010, the Industrial Enterprise Act was introduced to develop the Nepalese economy in a systematic and planned manner. For a long time, sometimes, it provided facilities and benefits, and so the times were cut by the new act. He concludes that industries are facing problems with duty drawback, tax assessment and exemption, local taxes, industrial estates, and the availability of funds.

Kamal Deep Dhakal expresses his view in his book on the Income Tax Act. 2058 has provided numerous facilities and benefits to industries. He appreciates the present tax act of 2058 due to its various provisions and features.

He further added that the 1950 concert, characterized by "high incentives, high tax rate", has evolved into the concept of "low rate, wide net." According to him, developed countries provided investment allowances and accelerated depreciation, whereas developing countries offered a tax holiday to promote industries. The Nepalese government changed its course and abolished most of the tax facilities provided by the Industrial Enterprise Act. He further expressed his view that most Nepalese companies are facing problems related to the discretionary power of tax administration, unclear and non-transparent income tax provisions, tax submission procedures incompatible with the self-assessment system, a narrow tax base, inadequate provision for appeal, the abolition of various tax-related concessions, rebates, and exemptions. This act has abolished all unnecessary tax facilities, concessions, and incentives provided by industry enterprises and other acts.

DATA PRESENTATION AND ANALYSIS

An empirical study has been conducted to investigate various aspects of the income tax problem faced by industries located at the NPJ Industrial Estate. The primary tool used for this purpose is a field survey. During the investigation, 15 sets of questionnaires were distributed to various industries. The questionnaire was given to the financial manager in charge of tax management.

The responses received from various respondents have been tabulated, interpreted, and analyzed in terms of Yes/No and ranking of choice according to the number of alternatives, where the first choice was the most important and the last choice was the least important. If the number of other options were ten, then the first preferred choice gets one point, the previous choice gets one-tenth of a point, preferred choices get one point, and thus, in sum, the choice with the least number is ranked as the most crucial choice. The most critical choice gets one, and the least vital choice gets ten.

Table 1

Group of Respondents and Code Used

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

Source: Field Survey, 2024.

Since it has been alleged that the Nepalese tax system has many problems. To determine whether the tax system in Nepal is effective, a question was asked: “Do you think the present tax system of Nepal is effective?” The responses received from the respondents are tabulated as follows:

Table 2

Attitude Towards The Tax System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	1	17	5	73	6	100
B	1	25	3	75	4	100
C	3	75	1	25	4	100
D1		100	-	-	1	100
Total	6	40%	9	60%	15	100

Source: Field Survey 2024.

From the table above, it is clear that 60 per cent of the respondents believe the present Nepalese tax system is ineffective, while only 40 per cent believe it is effective.

Sixty per cent of the respondents expressed the view that the current tax system is unfavourable. Thus, they are unsatisfied with the present tax system. Only 40 per cent of the respondents are satisfied with the present tax system. Eighty-three per cent of those from group A, 75% from group B, and 25% from group C felt that the present tax system is ineffective.

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

Table 3

Attitude towards the effectiveness of Tax administration

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

Source: Field Survey 2024

It is clear from the table above that the majority of respondents are dissatisfied with the current efficiency of tax administration. On the other hand, only 33% are in favour of the tax administration of Nepal. Sixty-seven per cent of the respondents are against the current efficiency of the tax administration; they feel that the present tax administration is inefficient. Fifty per cent of group A, 100% of group B, and 75% of group C thought that the present tax administration is ineffective.

To understand the respondents' views about income tax problems, a question was asked: "What are the income tax problems of your organization?" The respondents were presented with several issues and asked to rank them in order of importance. The responses received are tabulated as below:

Table 3*Income Tax Issues*

S.N.	Problems	Groups				Total Point	Rank
		A	B	C	D		
1	Defective tax administration	35	42	35	5	117	VIII
2	Corruption	35	30	24	10	99	V
3	Unclear provision of the present income tax act.	28	24	30	6	88	IV
4	Delay Procedure	27	22	20	4	73	II
5	Lack of systematic evaluation and control mechanisms	35	30	31	9	105	VI
6	Unclear definition of Income	22	17	14	2	55	I
7	Discretionary power of tax administration	35	30	33	8	106	VII
8	Improper implementation of the tax act.	48	45	46	11	150	XIII
9	Frequent changes in the tax act.	30	24	27	1	82	III
10	Lack of good tax audit personnel	43	38	37	3	121	IX
11	Higher tax rate	48	44	41	12	145	XI
12	Tax submission procedure	42	41	40	7	130	X
13	Inadequate facility & concession	53	46	48	13	160	XII
Total		481	433	426	91	1431	

Source: Field Survey 2024

Significant income tax problems related to the industries situated at Nepalgunj industrial estate, from the above table, according to the respondents' Preference, are as follows:

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

While surveying their Income tax problems, all respondents from the different groups felt that the unclear definition of income is the most serious problem among the various issues. They thought that the present definition of income is vague and ambiguous. They gave a total of 55 problems and placed first. Respondents from different groups felt that the improperly implemented tax act is the last problem. They provided a total of 160 points and updated the previous rank.

Conclusion

Income tax is one of the most important sources of the government's revenue. The contribution of income tax to Nepal's economic development has been increasing significantly in recent years. Present income tax management is conducted through the Income Tax Act 2058, in which the Nepalese tax administration has been attempting to adapt to address the pressing challenges brought about by changes in technology and economic policies.

The Income Tax Act 2058 is criticized for being complicated and Vague. These require effort to simplify the laws. If the law fails to meet international tax standards, it will be unable to attract foreign investments. The tax law should be consistent with the country's economic situation. The tax policy needs a clear-cut and long-term vision.

Industries are facing serious income tax-related issues, including unclear definitions of income, lengthy procedures, frequent changes in tax laws, inadequate tax administration, and more. They are unsatisfied with the present tax policies and system. They need some reform/modification in the tax act; the present Income Tax Act 2058 fails to achieve its objective.

The current tax administration is ineffective; therefore, it provides suggestions and guidelines to improve it, such as training and seminars for tax professionals, as well as simple tax policies. Industries are dissatisfied with the proper implementation of tax policy. The tax system is sound, but the government failed in its proper implementation.

The current income tax policy has a neutral impact on the profits of industries, satisfying them with the facilities and concessions provided under the Industrial Enterprises Act. They thought that tax officers have widespread discretionary power in Nepal. All industries felt that there were defects in the formulation of tax policies.

They require special tax policies for industries, efficient tax administration, clear-cut provisions, a better tax information system, and simplification of procedures, among other measures, to mitigate their income tax-related issues.

There should be a settlement of disputes between industries. There should be uniform rates for company audits and tax audits, as well as a reduction in tax rates across all sectors.

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