

Tax Compliance and Enforcement Trends in Nepal

Presented by

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आन्तरिक राजस्व विभाग
Inland Revenue Department
करदाताको सेवामा समर्पित



कर प्रणाली सुधार वर्ष २०६८



करको चर्चा घरघरमा गरौं, कर तिरौं, राष्ट्र निर्माणमा सहभागी बनौं ।

Outline of the Presentation

- ▶ Introduction to the IRD
 - ▶ Mandate and Approaches
 - ▶ Revenue Performance
 - ▶ Challenges Ahead
 - ▶ Direction to the Future
 - ▶ Major Compliance Issues
 - ▶ Legal Provision to Enforcement
 - ▶ Initiations for Enhancing Compliance
 - ▶ Major Results Expected
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Introduction



Established in July 2002 after the merger of the Value-Added Tax Department and Income Tax Department



Staffed by approximately 1,000 permanent and 300 contractual staff



Offices—1 LTO, 22 IROs, and 28 TSOs—13 in the valley and 10 outside the valley

Number of Taxpayers

Income Tax	PIT	Total	VAT
541,424	232,689	874,113	113,919

Mandate



Income
Tax

VAT

Excise

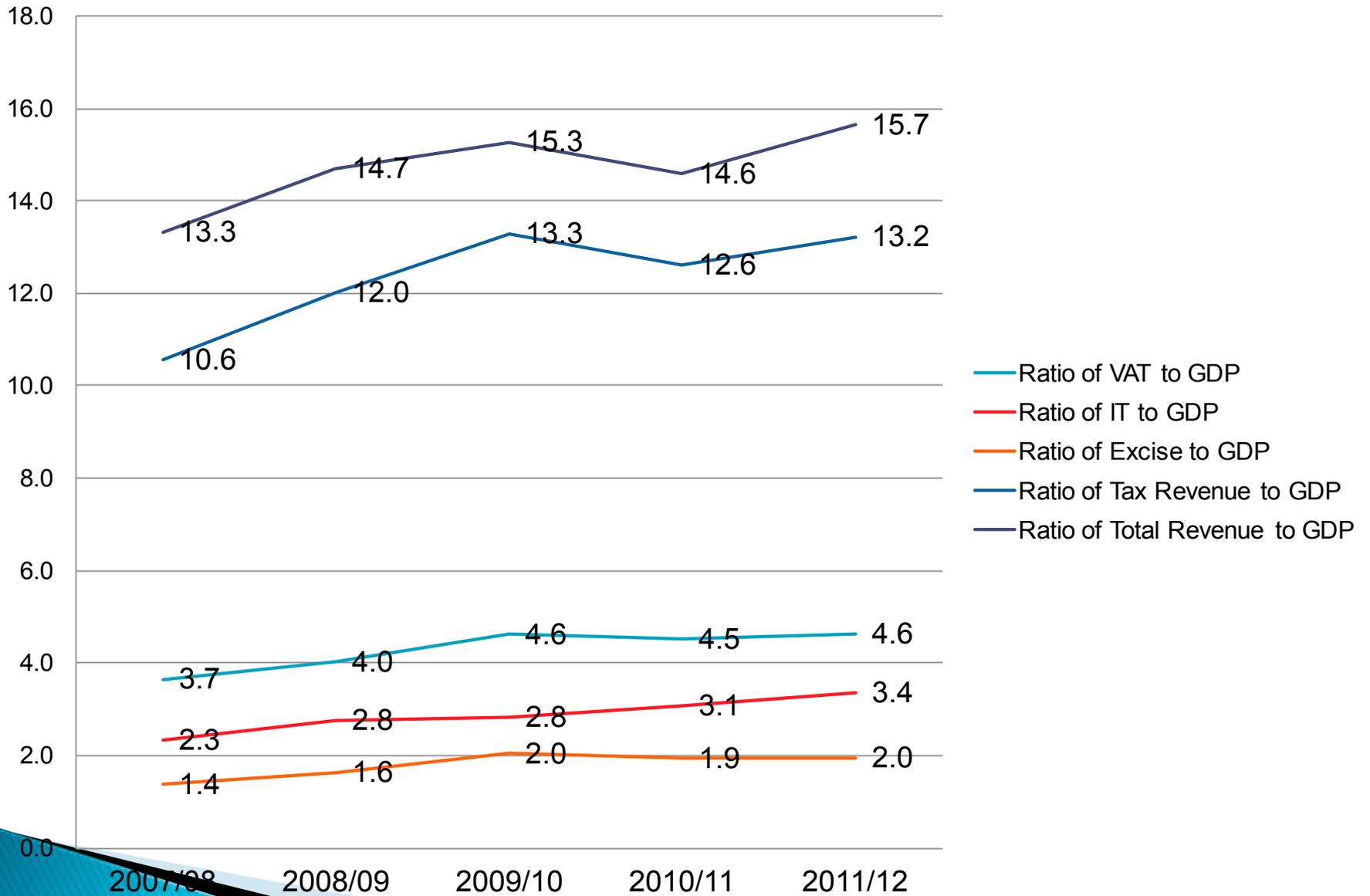
Health Tax

Education
Fee

IRD Approaches to Taxation

- ▶ Voluntary compliance-based tax system
- ▶ Research-based tax policy reform
- ▶ Need-based taxpayer education and awareness
- ▶ IT-based taxpayer service
- ▶ Scientific forecasting-based revenue estimation
- ▶ Indicator-based risk management & audit
- ▶ Functional- and segment-based organization
- ▶ Information- and intelligence-based enforcement
- ▶ Evidence-based tax investigation
- ▶ Cadre-based, taxpayer-friendly administration
- ▶ Fare-based administrative review system

Revenue Analysis with GDP

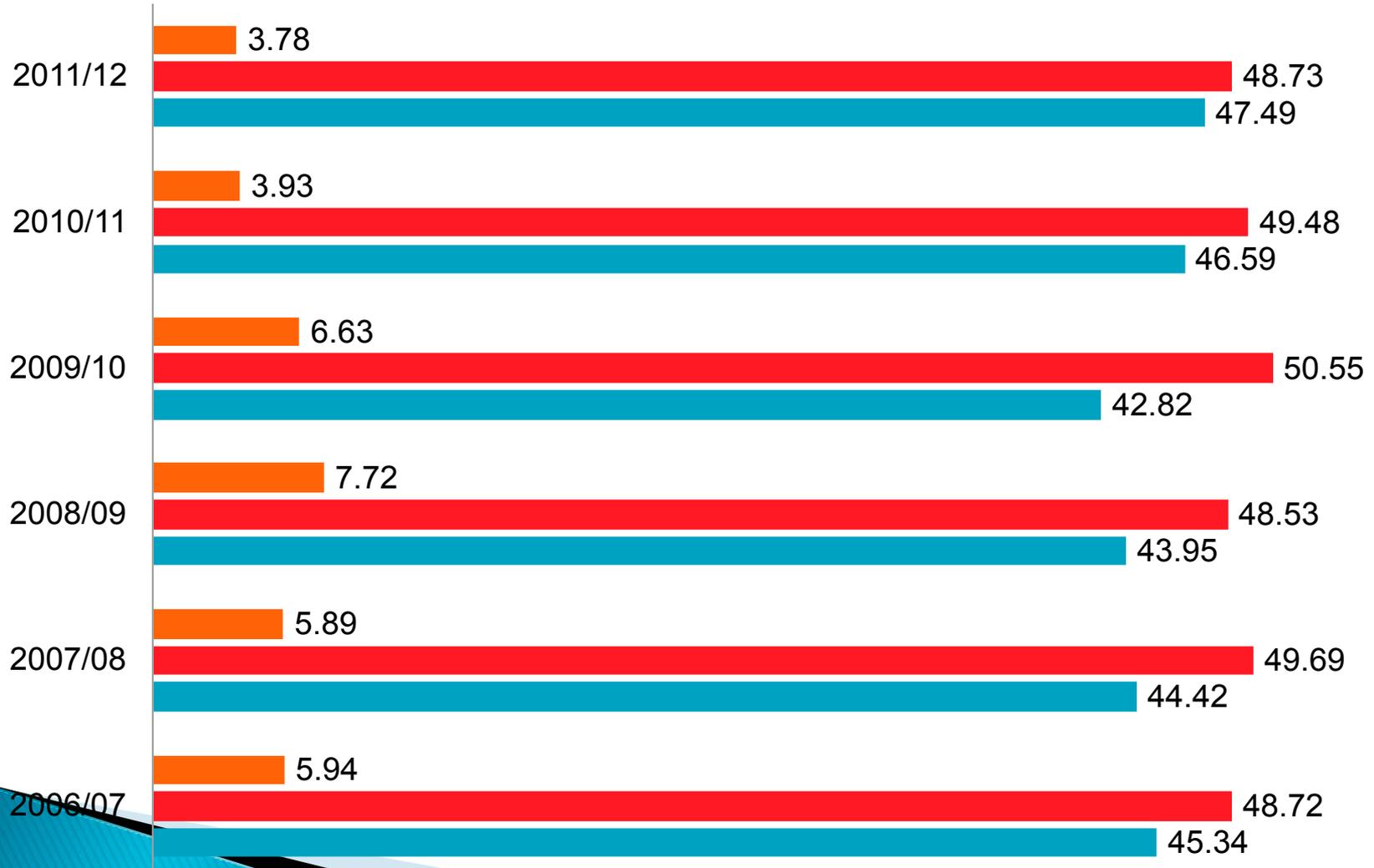


Composition of Tax Revenue (%)

Share of Land and Vehicle Ownership

Share of International Trade based Revenue

Share of Inland Revenue

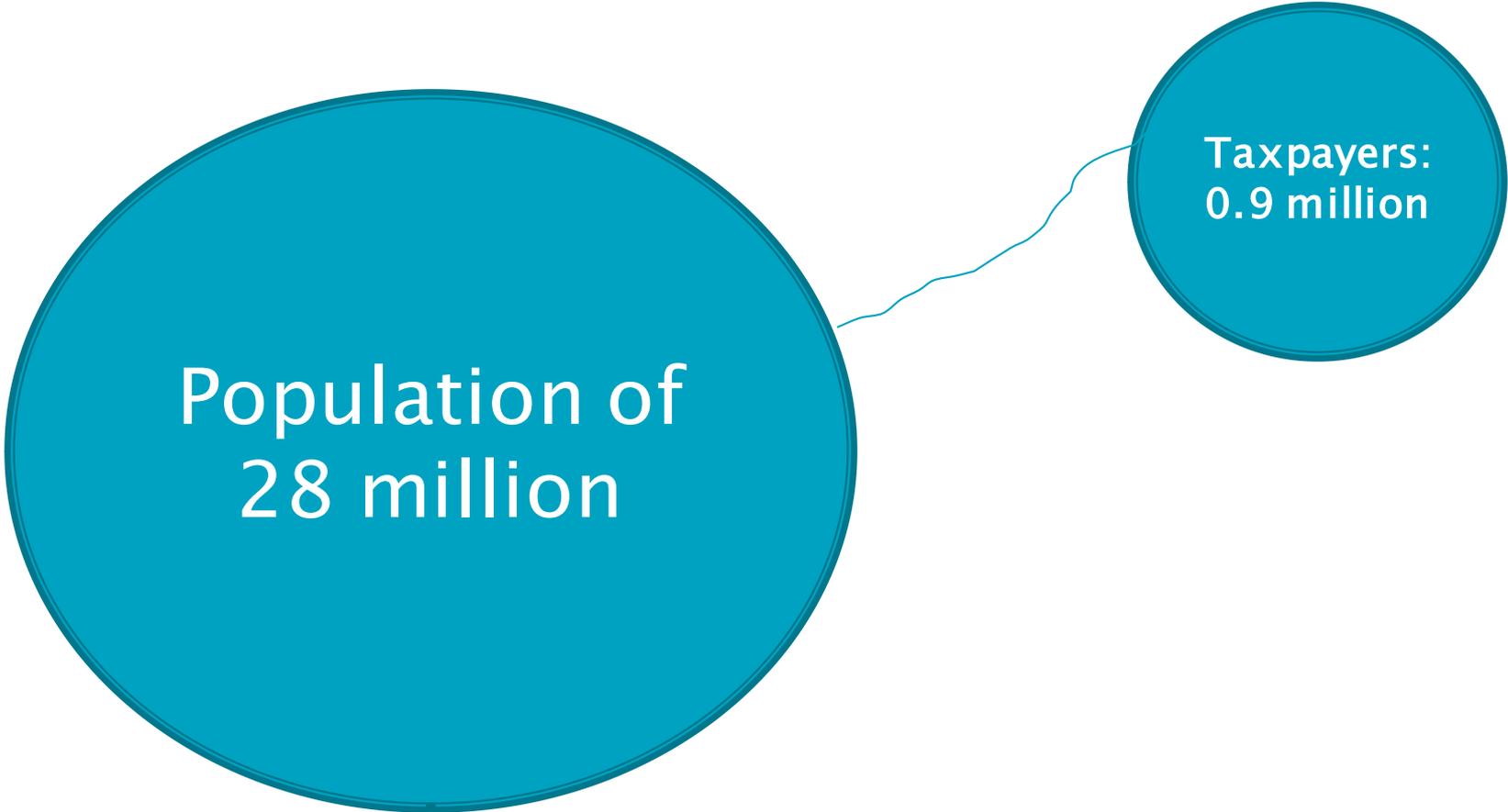


Tax-to-GDP Ratio

- ▶ Domestic Revenue Mobilization

Tax-to-GDP ratio (%)		
Nepal	LIC	OECD
13.2	15.2	35

People in Tax Net



The infographic consists of two teal circles. The larger circle on the left contains the text 'Population of 28 million'. A thin teal line connects the right side of this circle to the left side of a smaller circle on the right, which contains the text 'Taxpayers: 0.9 million'. The background is white with a decorative teal and black gradient shape at the bottom left.

Population of
28 million

Taxpayers:
0.9 million

Challenges

- ▶ Bringing informal economy into tax net
 - ▶ Cutting down compliance costs
 - ▶ Detecting tax fraud and action against it
 - ▶ Keeping up high morale of the tax personnel
 - ▶ Enhancing professionalism
 - ▶ Sustainability of e-tax, e-payment, ABBS system, and initiation of TIN
- 

Challenges (cont'd)

- ▶ Taxpayer education to all taxpayers
 - ▶ Creating taxpayer-friendly treatment
 - ▶ Enhancing voluntary compliance of highly noncompliant behavior.
 - ▶ Joint collaboration with other agencies (i.e. private sectors, other orgs, etc.)
 - ▶ Taxing e-commerce
 - ▶ Knowing your customer (KYC)
- 

Directions of the SP

Vision—An efficient organization for internal revenue mobilization, professional services, innovation, and economic growth

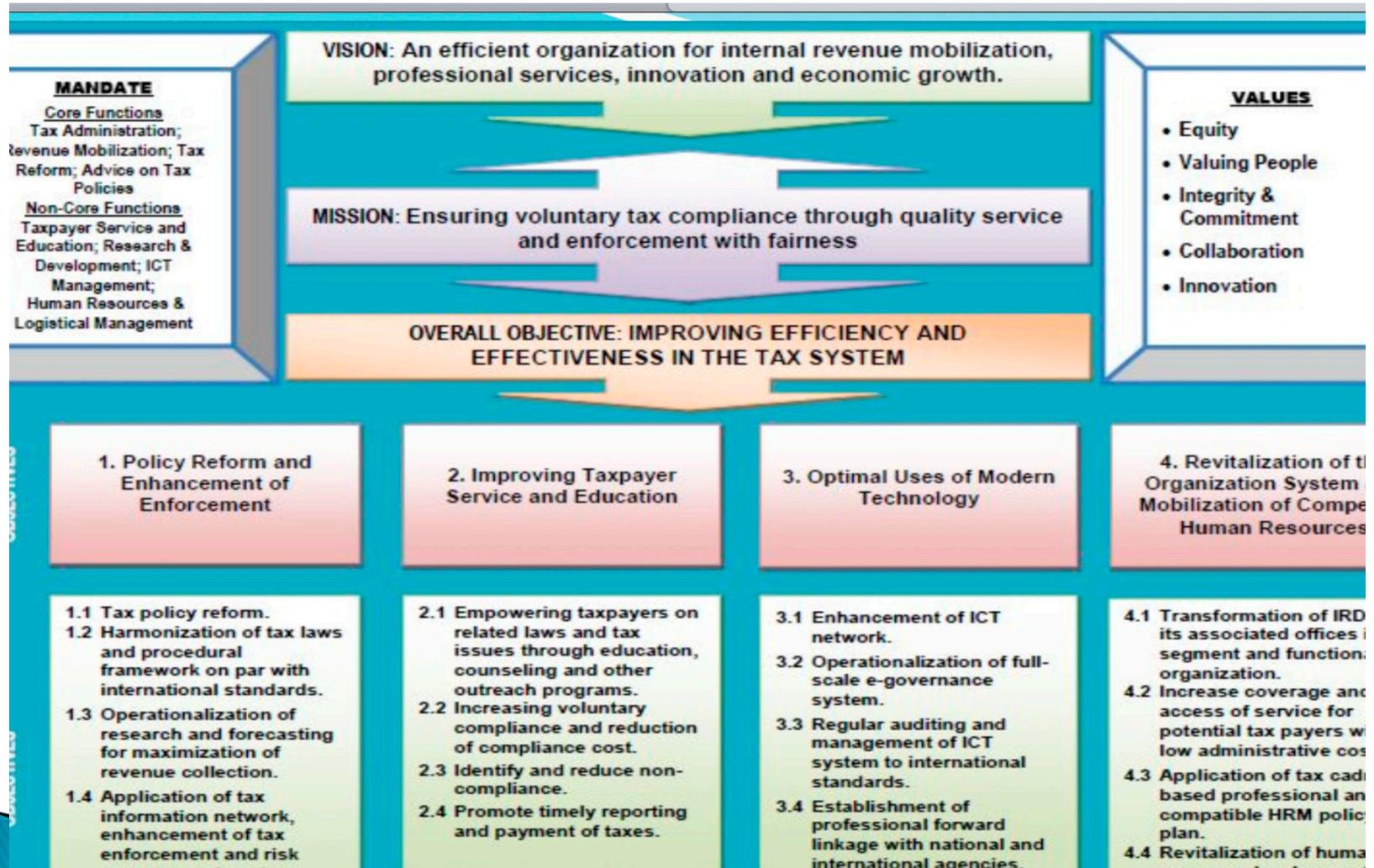


Mission and Objectives

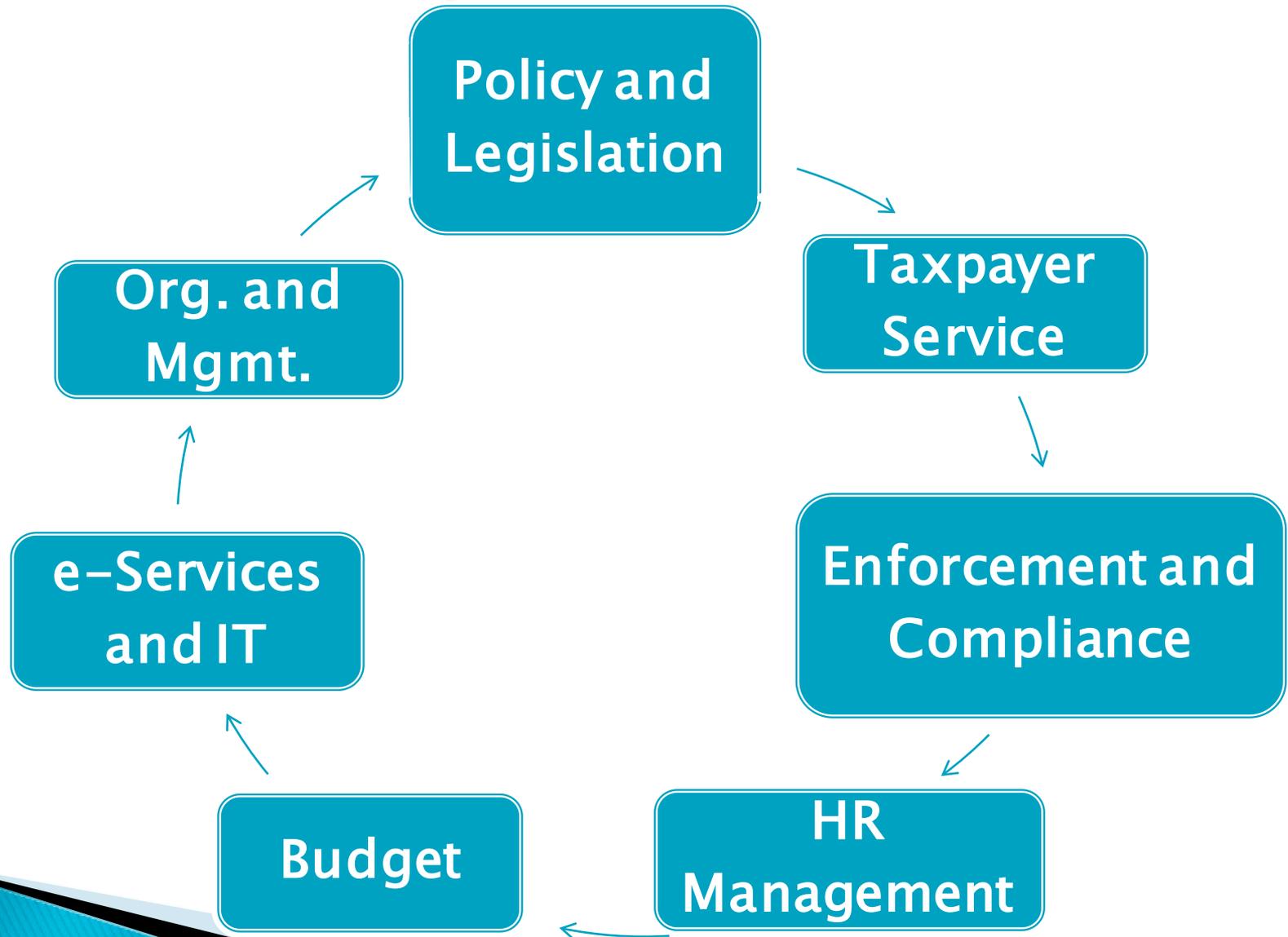
Mission—Ensuring voluntary tax compliance through quality service and enforcement with fairness

Overall Objective—Improving efficiency and effectiveness in the tax system

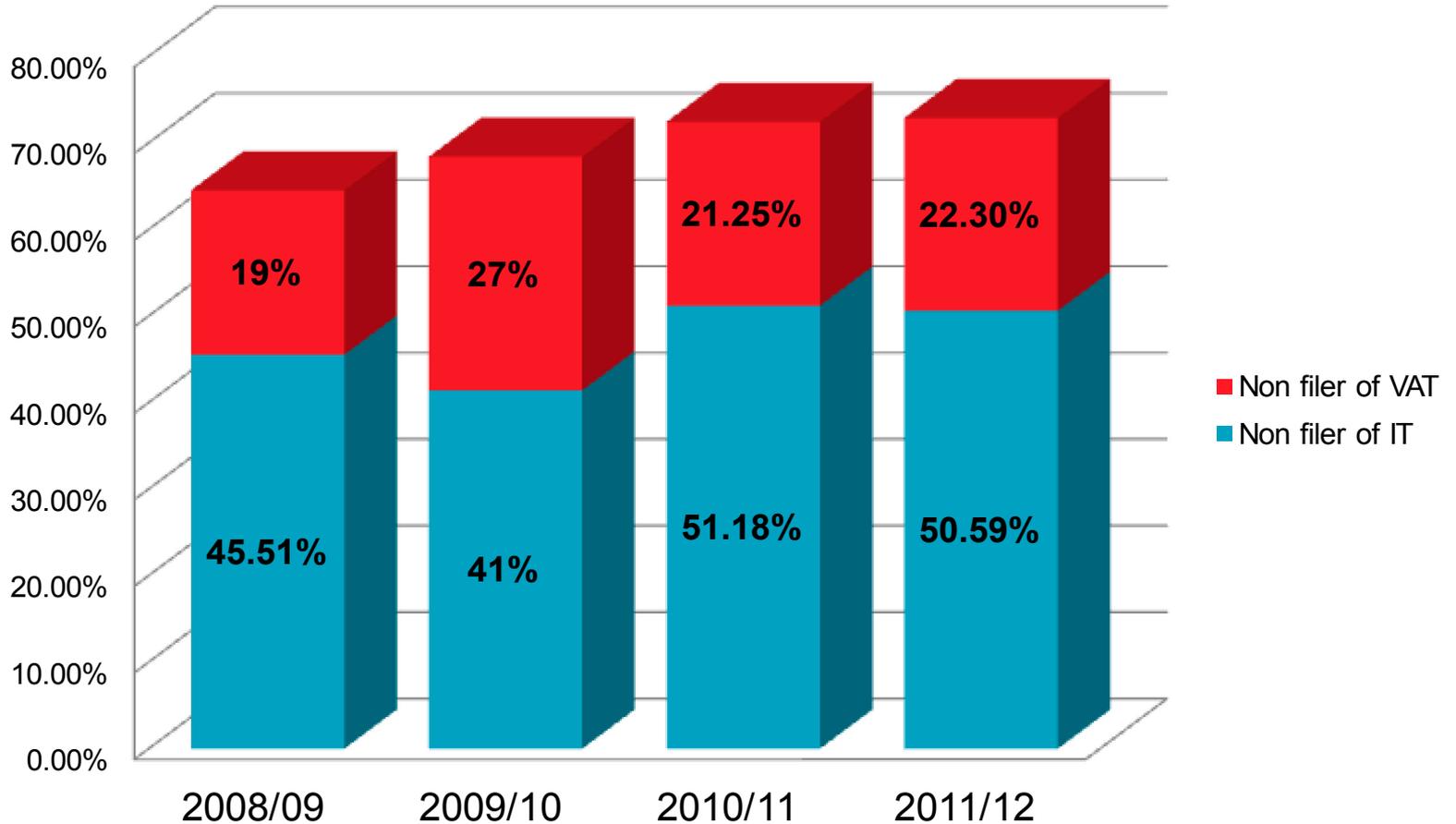
IRD Strategic Plan: At a Glance



The Priority Areas for Reform

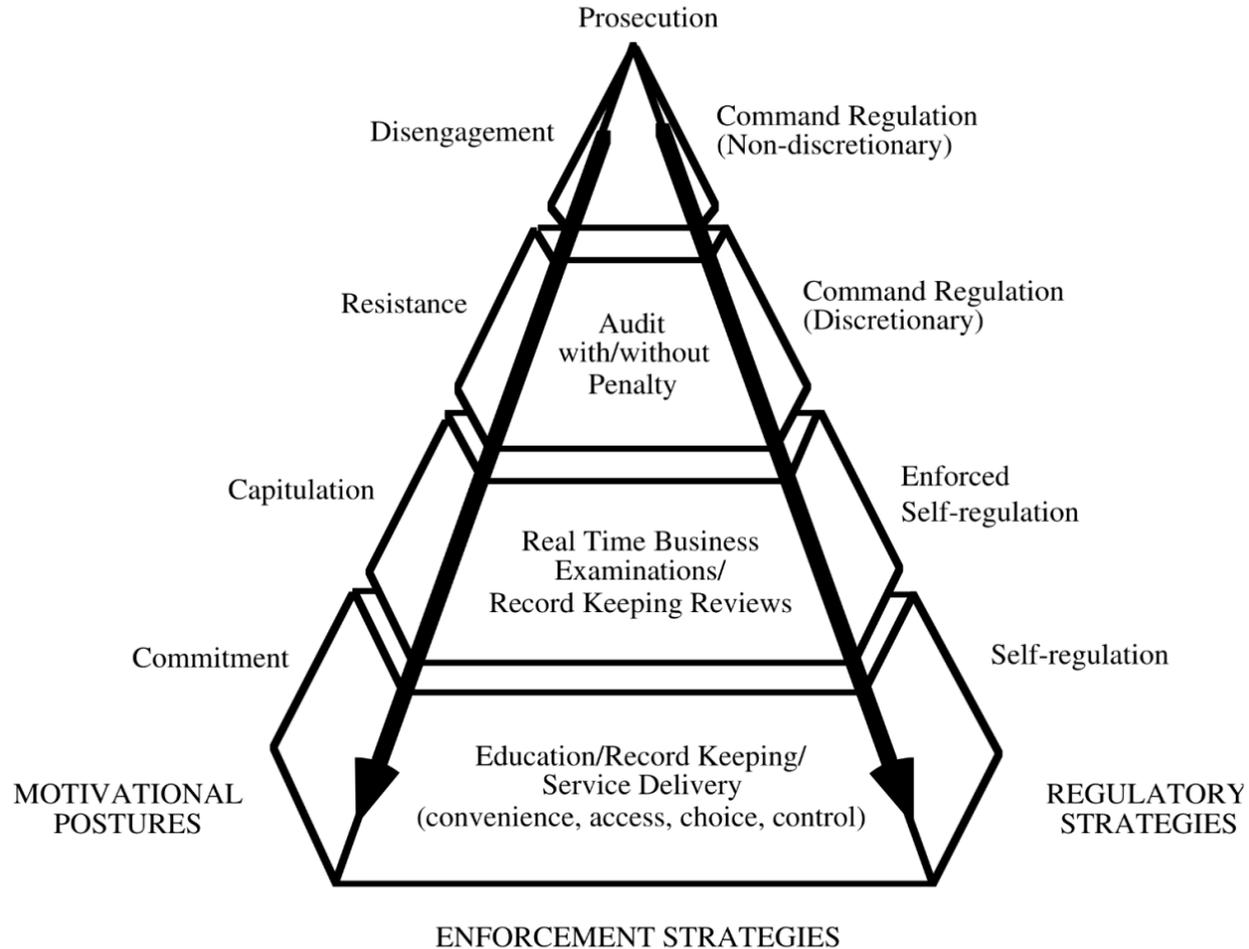


Compliance Trend in Return Filing



Compliance Pyramid

A New Approach to Tax Compliance



Major Compliance Issues

- ▶ Low registration (income tax and VAT)
 - ▶ Low return filing (huge non-filers)
 - ▶ Under invoicing and non-invoicing
 - ▶ Data mismatch (difference in reporting)
 - ▶ Tax fraud (fake VAT bill case)
 - ▶ Huge amount of tax dues
 - ▶ Large no. of cases pending in Revenue Tribunal
 - ▶ No new policy and no new tax rates for the last one year
 - ▶ No supportive environment for enforcement
- 

Legal Provision to Enforcement

- ▶ Monitoring of suspected taxpayers
 - ▶ Selection of cases for audit and investigation based on risk factors
 - ▶ Imposition of financial penalties:
 - Additional charges;
 - Fees;
 - Interest;
 - Penalty, etc.
 - ▶ Suspension of Transaction
 - ▶ Closure of Business
 - ▶ Imprisonment
- 

Initiatives for Compliance Enhancement

- ▶ Tax system reform year announcement
 - ▶ Implementation of 5-year strategic plan and 3-year reform plan
 - ▶ Initiation of organizational restructuring
 - ▶ Taxpayer segmentation study undergoing
 - ▶ Human Resources Management Plan prepared
 - ▶ National Tax Day celebrated for the first time
 - ▶ Application of service to enforcement strategy
 - ▶ Communication strategy (use of Tax Bulletin, Radio, TV, News, Print, etc.)
- 

Initiatives for Compliance Enhancement

- ▶ Revenue research and forecasting unit established
 - ▶ Online taxpayer service (call center, etc.)
 - ▶ Initiation of tax information network (TIN)
 - ▶ Data link with Company Registrar Office has already been started
 - ▶ Integrated market monitoring and billing enforcement program
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National Tax Day Celebration



Tax Clinic



Monthly Tax Bulletin



<http://www.ird.gov.np>

कर बुलेटिन

प्रथम राष्ट्रिय कर दिवस विशेषाङ्क
आन्तरिक राजस्व विभागको मासिक प्रकाशन

Tax Bulletin

First National Tax Day Special Issue

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प्रथम राष्ट्रिय कर दिवस तथा कर सप्ताह सफलतापूर्वक सम्पन्न



सम्माननीय प्रधानमन्त्री डा. बाबुराम भट्टराई प्रथम राष्ट्रिय कर दिवसको विधिवत उद्घाटन गर्दै ।



Tax System Reform

Strategy Plan

Reform Plan

IRD in 5 Years

Activities for
Next 3 Years

Major Results Expected

- ▶ Tax-to-GDP ratio increased to 18% within 5 years
 - ▶ 100% of large taxpayers and 2% of other taxpayers will be audited annually
 - ▶ Need-based taxpayer education program
 - ▶ Maintain non-filer rate below 10% in VAT and 40% in income tax
 - ▶ Establishment of fully functional and segment-based organization
 - ▶ Decrease compliance cost by 50%
 - ▶ Full integration and full automation of VAT, IT, and excise system
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Major Expected Results of SP

- ▶ Implementation of e-payment system in tax
 - ▶ Full operationalization of ABBS system for tax collection
 - ▶ 100% taxpayer registration by online system
 - ▶ 100% collection of tax returns through e-filing
 - ▶ Full application of HRM policy
 - ▶ Reallocation of offices and service units for accessibility of the taxpayers
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Thank You All from the Country of Mount Everest

