

The reform initiatives taken by the Government of Nepal are grouped in three major heads as mentioned below:-

1. Policy Reforms:

- Improve the buoyancy and elasticity of the tax system by widening the tax base of value added tax, income tax, excise duty and custom.
- Streamline the tax rates and tax slabs in income tax, VAT, excise and custom.
- Minimise the exemption list in VAT.
- Discourage the tendency to provide tax rebate and exemption by reforming sectorial laws and cabinet decisions.
- Groom tax personnel towards developing taxpayer friendly behaviour.
- Separate revenue group within Nepalese civil service to make the revenue service more professional and competitive.
- Increase Taxpayers compliance by the introduction of self –assessment system in Income Tax and VAT.
- Computerization of Income Tax and VAT.
- Streamline the rates of custom duties in line with WTO and SAFTA provisions.
- Introduce electronic lodgement of customs declaration form using direct traders Input (DTI) module.
- Establish wide area network (WAN) in custom department and connect it with main nine custom offices.
- Form a separate risk management team in custom department for the purpose of intelligence and awareness in Cargo Selectivity Module.
- Strengthen and expand ASYCUDA system in remaining custom offices.

2. Legislative Reforms:

- Introduction of VAT in 1997 covering a wide range of business, keeping threshold at NRS.2 million.
- Introduction of new Income Tax Law in April 2002 covering global income into tax net.
- Introduction of new Excise Law in 2002 covering domestically manufactured and imported goods.
- Introduction of new Custom Act 2007, compatible with WTO valuation system.

3: Institutional Reforms:

- VAT and Income Tax Departments were merged into Inland Revenue Department. Twenty one district level frontline offices and some service centres were established to administer the VAT, income tax and excise duty.
- A Large Taxpayer Office was established in 2005 to administer the state owned public enterprises, banks, finance companies and big business houses exceeding turn over of 250 millions NRs.
- A preliminary study was conducted to change current Inland Revenue Department into an autonomous Revenue Authority Board.
- The revenue consultative committee, a think-tank body was formed for policy advice.
- Rigorous training programs were conducted to make employees more capable and professional.

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- VAT system was computerised and income tax system is underway to be computerised.
- Process and procedures are being rationalised. Manuals, returns, formats and enclosures are being simplified.
- Taxpayer education program is highly focussed by the government through different interaction programs, public notices in national daily, websites and home page design and customer awareness program through lottery provision in VAT billing.
- Taxpayer's Charter and grievance handling system in tax administration was introduced.
- E-filing and ETDS system is being introduced this year in major income tax offices.
- Permanent account number distribution system was sourced out to the Federation of Nepalese Chambers and Commerce and Industries (FNCCI).
- Performance based incentives program is being introduced in 2006-07 in large Taxpayer office and Birgunj Dry port. Expansion is being proposed this year to some more offices in IROs and customs.
- Post Clearance Audit unit (PCA) was established in the department of custom.
- Computerised scanning machines were installed in major custom offices for the simplification of custom procedures.
- Single window clearance system was operationalised for the cargo of third country import in Birgunj custom office.
- Computer software relating to passenger clearance has been installed in TIA custom office in order to simplify the passenger clearance process.
- New revenue accounting system has been introduced.
- Accounting and auditing softwares are standardized.

Reform Initiatives of IRD in this Fiscal Year

Mission

- Right tax right way
- Minimize untaxed and under tax money.

Strategies

- Improve and enhance law enforcement mechanism.
- Modernization of administration through people, process and technology reforms.
- Improve service options.
- Facilitated participation in the tax system by all sectors.
- Simplification in tax processes.
- Monitor abuse of tax exemption.
- Monitor professional standard of tax practitioners.
- Discourage and deter non compliance.

Modernized administration through people process and technology

Objectives

- Maximize productivity of employees.
- Modernise information system to enhance services and enforcement mechanism.
- Maximise resources to frontline operations.

People:

- Account and audit standard training.
- Specific issue training.
- Observation tours.

Processes:

- Coordinate with public information offices-bank and financial institutions, credit information bureau, customs and other offices.
- Registrations.
- E-TDS
- Arrears settlement and tax settlement commission.

Technology:

- Hardware purchase and leased line stalled.
- Software development.

Immediate Future Reforms:

- Effective implementation of E-TDS, ECR, fiscal printer.
- Expansion of E-filing.
- Autonomous revenue authority.
- Compulsory Electronic Cash Register (ECR) will be introduced for retailers in selected areas of business.
- Computer billing system will be implemented with compulsory modem and telephonic line and fiscal printer to the target group of large importers and with high annual turnover.

Current Issues:

- Under invoicing and under billing.
- Cross border smuggling.
- Taxation on E-commerce.
- Increasing non filer and late filers.
- Auditing and investigation of tax evasion especially through transfer pricing.
- Collection of arrears.
- Tapping potential tax payers in tax net.
- Enhance tax payers compliance level.
- Competency and professionalism of tax officials.