

Challenge to Make Tax Avoidance as a Major Agenda of Common People of Nepal

Democracy and good governance are considered as important as the two sides of a coin. Along with the prolonged political transition, Nepal is not only suffering from democratic deficits but also from corruption and other uproot malpractices. As far as tax is concerned, a government formed Task Force¹ reports that tax evasion remains a major problem in Nepal. Tendency to evade tax is rampant not only among the individuals but also the big business houses. In other words, it is said that Nepal's tax system is circumscribed by lack of transparency and simplicity and tax is more or less determined by arbitration between taxpayers and tax authorities generating a huge sum of kickbacks directly enjoyed by the so-called politicians and power-groups. Once delinquency and manipulations in taxation are rampant, and these activities have often been protected by the influential politicians and bureaucrats, the amount of tax evasion would be high, and thus has adversely impact in mobilization of government resources for development projects.

Though the Income Tax Act, 2002 has made a provision whereby 20 per cent of tax amount out of the total evaded tax that has been recovered from an evader is provided as a reward to the individuals who inform with evidences, the occurrence of such evasion in order to discourage tax evasion, no fundamental change has been witnessed. A variety of political, administrative, economic, social, psychological and cultural factors are considered as responsible factors for aggravating corruption and irregularities in society. It has been witnessed that there has been a massive increase in political corruption in recent years. It is said that major cause for such an increase is largely due to a growing nexus among politicians, bureaucrats and businessmen. It seems worth to quote Khanal (2000) here, according to him:

Everyone knows that corruption is rampant but very few care about its damaging effects. It is hampering the development process of the country and depriving the people from getting services that are due to them. The money that is supposed to be spent on public welfare, roads, transport, health, education and so on gradually slipping into private coffers which is not only creating class divisions but also depriving the poor from their basic needs. The number of palatial houses being erected in Kathmandu and other big cities, especially by the politicians and bureaucrats, are not the products of their genuine income. So, where do they get

¹ For details see report of a Task Force on "Formulating Central Revenue Board" formed On September 22, 2009 by the Government of Nepal presented at Ministry of Finance on December 15, 2009.

money to erect their palaces? How did they become rich having all the luxuries of the modern world overnight? This, certainly, should be a matter of great concern to every citizen if corruption is to be eradicated.

In fact Khanal is right in arguing that we have to show our concern and try to analyze how only a few people can mobilize huge amount of money in order to go for luxurious life in a country like Nepal the economy of which has been always in a bad shape for at least 2 decades.

In the given background, a study (Pyakurel et.al. 2011) has been undertaken in Nepal in order to see the possibility to increase civil society, media and stakeholder awareness and understanding about tax issues affecting the country. The following were the main objectives of the study.

- Introduce taxation for a civil society audience.
- Provide an insight into Nepal's tax system.
- Assess recent domestic, regional and international initiatives as they relate to Nepal.

A survey was conducted by distributing specially designed semi-structured questionnaires in 2011. The questionnaires had incorporated tax related issues such as people's awareness on every form of tax, their estimated paying amount of tax, their assessments regarding its usefulness, and relationship with tax authorities (local / district / national), etc.

This study had also attempted to find out awareness and perceptions of the general public about tax. The field study conducted a survey by distributing specially designed semi-structured questionnaires. The questionnaires had incorporated tax related issues such as people's awareness on every form of tax, their estimated paying amount of tax, their assessments regarding its usefulness, and relationship with tax authorities (local / district / national), etc. In order to avoid bias and to make the study more inclusive, the researchers posed questions to both the male and female respondents from people of different social class including owners of small enterprises, businessmen, job holders, farmers, housewives, etc. Data were collected from urban area (from capital city of Kathmandu) and a semi-urban area (Kushma of Parbat district) of Nepal. Social composition of the respondents interviewed for this study purpose is as follows:

Table 1
Social Composition of the Respondents

Social Composition	Kathmandu			Parbat (Kusuma)			Kathmandu & Parbat		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Brahmin	5	1	6	6	1	7	11	2	13
Chhetri	0	2	2	1	1	2	1	3	4
Jananati	3	2	5	2	1	3	5	3	8
Madhesi	1	0	1	0	1	1	1	1	2
Dalit	0	1	1	2	1	3	2	2	4
Others Unspecified	0	0	0	1	0	1	1	0	1
Total	9	6	15	12	5	17	21	11	32

Source: Pyakurel et.al. 2011

*Here, we categorised one respondent as other unspecified group as he denied to mention his cast.

Chart 1

Social Composition of the Total Respondents (Kathmandu and Kushma, Parbat) by Caste/Ethnicity

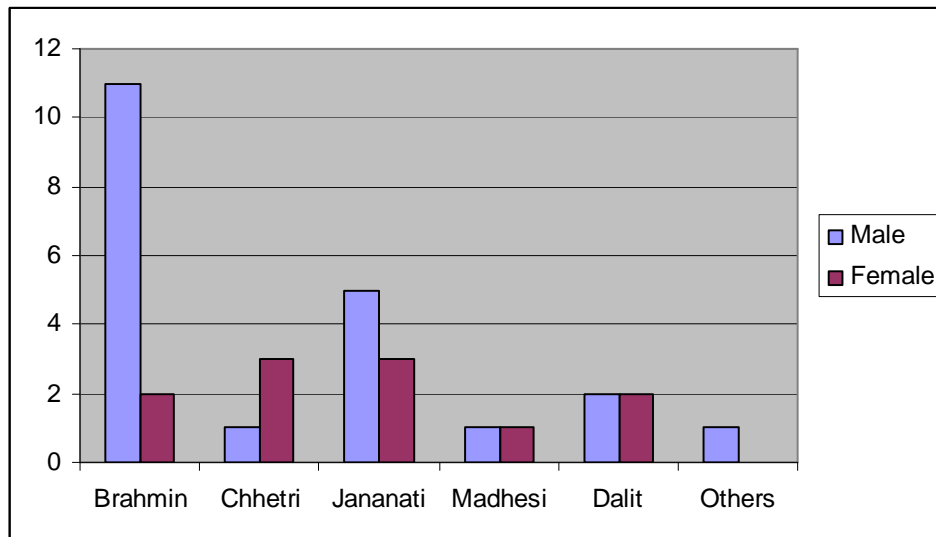
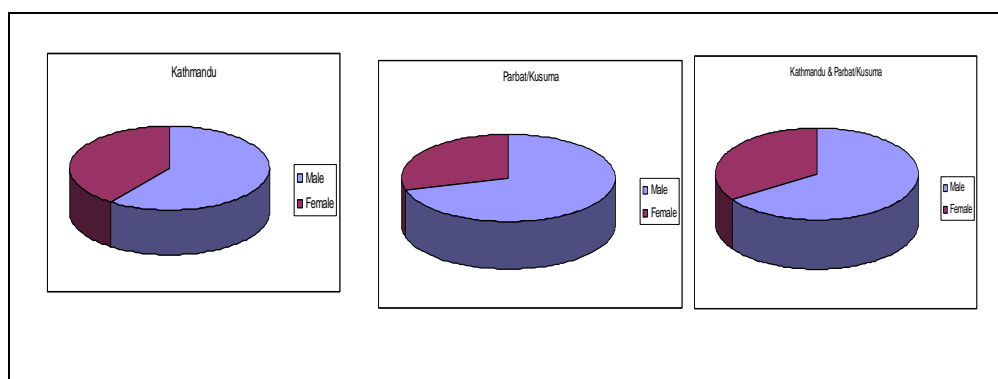


Chart 2

Social Composition of the Respondents by Gender



In order to examine the awareness and perception of the general people about tax, this field study has carried out a survey of different castes and ethnic groups. For this purpose, 32 randomly selected respondents were surveyed including 15 respondents in Kathmandu and 17 respondents in Parbat district. Among these, 21 (65.6 percent) were male and 11 (34.4 percent) were female.

It is worth mentioning here that Nepal, though a small country in South Asia, is a homeland of 103 ethnic/caste groups (including two unidentified groups) that speak 92 different languages and dialects (UNDP 2009). The ethnic groups, who are popularly known as 'Janajatis'² in Nepal, alone comprise 59 groups. Janajatis are the largest ethnic groups with 37.2 percent population followed by Brahmin/Chhetri 32.8 percent, Dalits 11.8 percent, Muslim 4.3 percent and other 1.0 percent (UNDP 2009). On the other hand, Madhesis³ make up 31.2 percent of the total population⁴.

The following table shows the comparative study of poverty incidence by caste and ethnicity in Nepal in 1995/96 and 2003/04.

Table 2
Poverty Incidence by Caste and Ethnicity, Nepal, 1995/96 and 2003/04

Social Category of Population of Nepal	Poverty Headcount Rate	
	1995/96	2003/04
Nepal (average)	41.8	30.8
Brahmin/Chhetri	34.1	18.4
Dalits(formerly untouchables)	57.8	45.5
Newar	19.3	14.0
Hill Janajati	48.7	44.0
Tarai Janajati	53.4	35.4
Muslim	43.7	41.3
Tarai Middle Caste	28.7	21.3
Others	46.1	31.3

Source: UNDP (2009), Nepal Human Development Report, 2009, p. 46

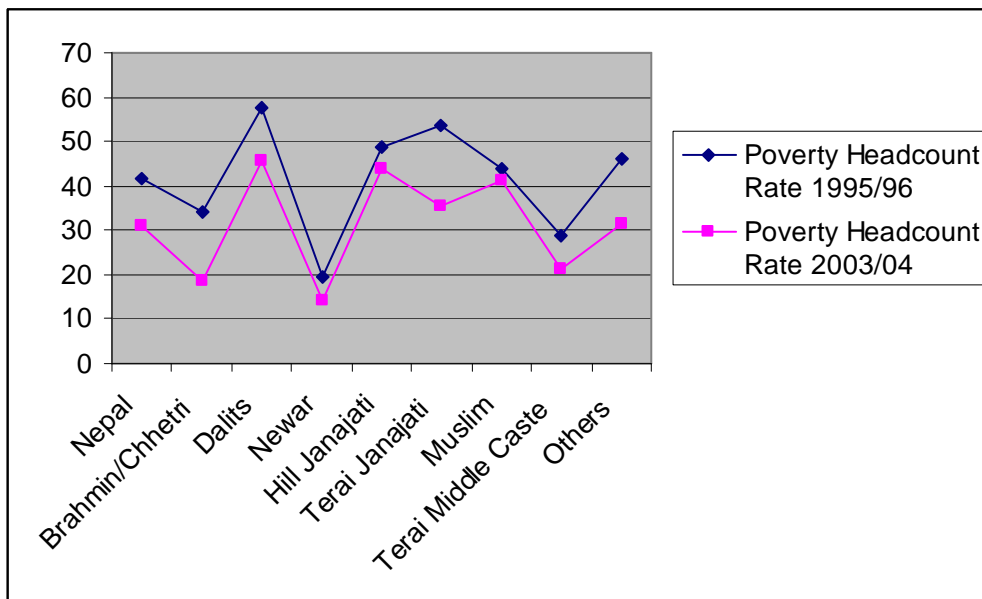
² As per the official definition, "Janajati" or "indigenous nationalities" means a tribe or community as mentioned in the schedule having its own mother language and traditional rites and customs, distinct cultural identity, distinct social structure and written or unwritten history.

³ The term Madhesi refers to people of Nepal who reside in the southern, plains region called the *Tarai*, and they are ethnically, culturally and linguistically similar to people of Bihar and eastern Uttar Pradesh states of India

⁴ for details, see

<http://www.nepalitimes.com/issue/2009/03/13/ConstitutionSupplement/15753>

Chart: 3
Poverty Incidence by Caste and Ethnicity, Nepal, 1995/96 and 2003/04



Source: Pyakurel et.al. 2011

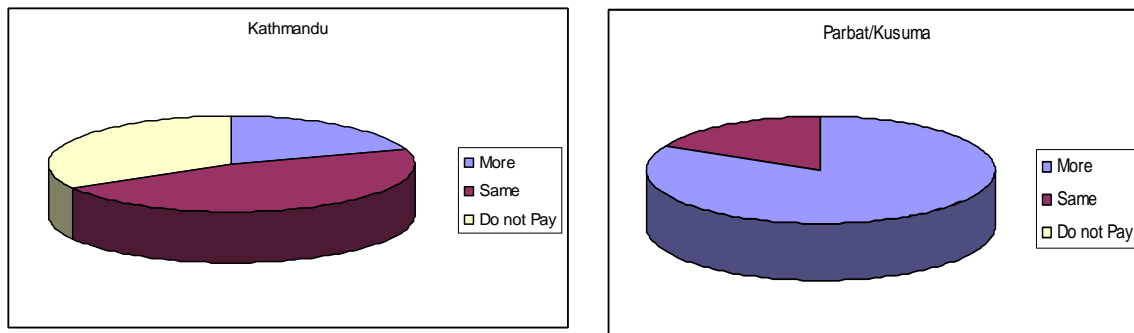
The above table shows that while the incidence of poverty is the highest in Dalit community, it is lowest in case of the Newar community. However, the poverty incidence has declined remarkably in all the caste and ethnic groups between 1995/96 and 2003/04.

Important Reflections of the Field Work

As the major objective of the study was to gauge people's perception on tax system, the first question asked to everybody was about their basic understandings of tax. Of the total respondents, 86.7 (13 out of 15 respondents) from Kathmandu fieldwork showed that they had basic understandings of tax, and one respondent each from Chhetri and Dalit groups said they had no idea about tax at all. Whereas all the respondents from the different social class, excluding one female respondent from both Janajati group, and Dalit answered that they had some basic understanding about tax. A female respondent stated "I do not know about the types of taxes. The sources of tax implacable in locality are house tax, land tax, tax on drinking water, tax on electricity, tax on telephone, tax for rubbish management, etc."

Mentioning the sources of tax implacable in locality, three respondents including a respondent from unspecified group from Parbat/Kushma field mentioned that taxes had been imposed on more items such as tax on stone, tax on pebble and sand, tax on vehicles, employment tax, etc. Some of them went on relating fees on event registration i.e. birth, death, marriage, migration, etc. When asked about the tax they paid before and after 2006, the answer was as follows:

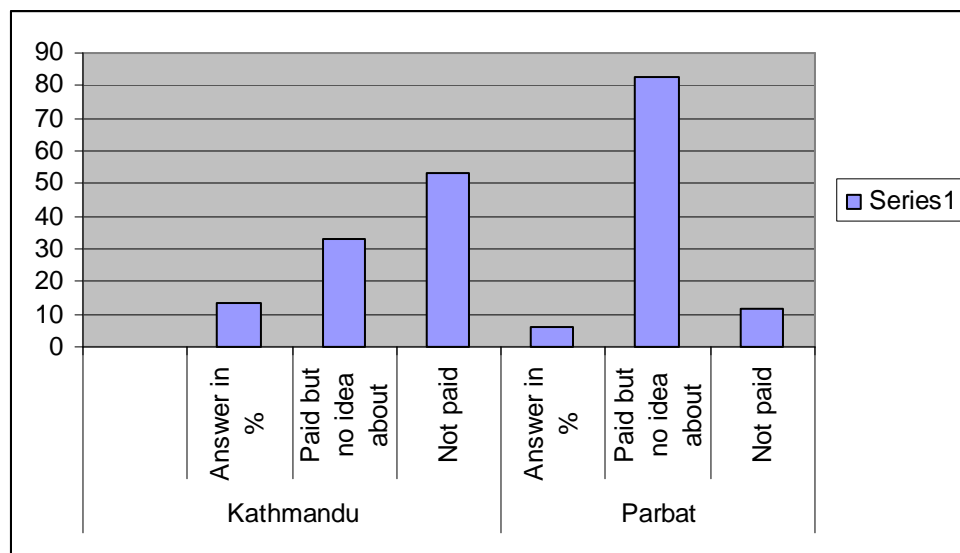
Chart: 4: Tax Paid before and after 2006



Source: Pyakurel et.al. 2011

As per the collected data, 46.7 percent respondents in Kathmandu valley have been paying the same amount of tax before and after 2006, and only 20 percent respondents paid more tax after 2006 in Kathmandu valley. But in Parbat/Kushma 82.4 percent respondents paid more tax after 2006. The answer of the next question “about the amount of the VAT the respondents paid” is given below.

**Chart: 5
Volume of the VAT Paid by the Respondents**



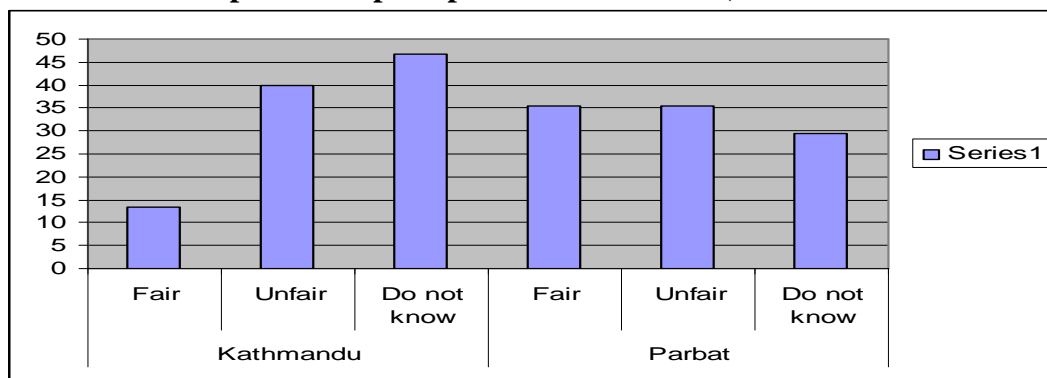
Source: Pyakurel et.al. 2011

Interestingly, 53 percent respondents from Kathmandu valley did not pay VAT while 33.3 percent paid it but they did not know what it was. Only about 13 percent respondents answered the right percentage of VAT that is levied on goods. Those who mentioned the amount of VAT in percentage stated that they had been paying 12 to 15 percent of VAT.

However, a female respondent from Kathmandu was categorical in saying that she is “paying 15 percent VAT”. But in Parbat/ Kushma 82.4 percent respondents seemed to have paid VAT but without knowing about it. Only about six percent respondents answered the percentage of the VAT amount.

Interestingly, those who pretend to be aware of tax system do not seem to be aware of the actual percentage of VAT they pay. Majority of the respondents (two respondents from Brahmin male, one respondent from Brahmin female, one female respondent from Kathmandu field, and four males and a female Brahmin, a male and female Chhetri, two Janajati males, a Janajati female, a Madhesi female, two male Dalits, and one unspecified respondents from Kushma) answered that they had paid VAT but they were unaware about the amount they had paid as VAT. “I have not paid VAT directly, but I am paying it indirectly while buying daily consumer goods,” was the answer of most of the respondents. The remaining respondents from Kathmandu and Kushma field answered that they had not been paying any VAT. They replied “I have heard about VAT but have not paid it as yet”. Therefore, it can be said that a lot of people do not know much about VAT.

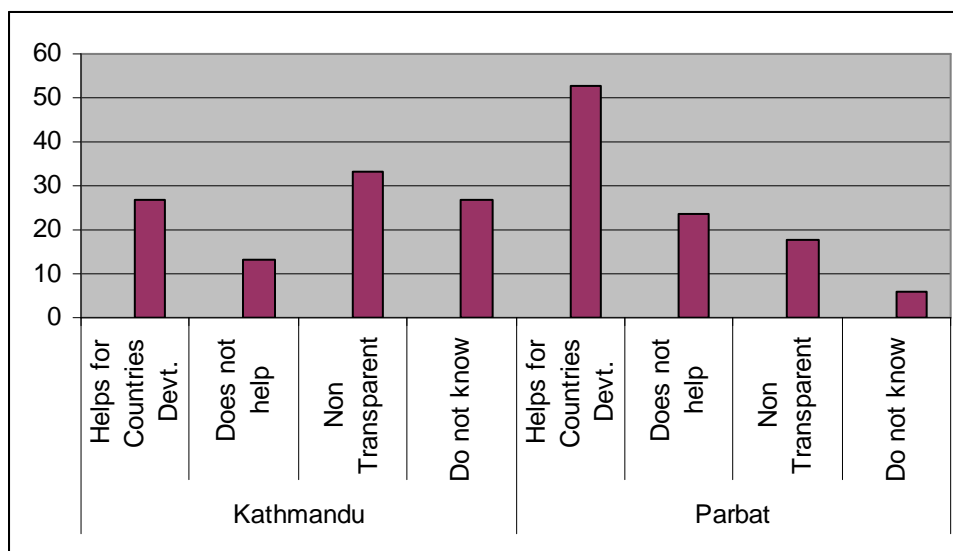
Chart: 6
Respondent’s perception towards VAT (Fair/Unfair)



Source: Pyakurel et.al. 2011

When asked whether collection of VAT was fair or unfair, 40 percent respondents (two males and one female from Brahmin caste, one female from Chhetri caste, one male and one female from Janajati groups) from Kathmandu, and 35 percent (one Brahmin male and two Janajati males along with a Janajati female, two Dalit males and a male from unspecified group) from Kushma said it was unfair to collect VAT. Those who said it was fair to collect VAT, all of them put a condition that both the processes of tax collection and utilisation should be done in a transparent manner.

Chart: 7
Respondent’s perception towards VAT (helpful/harmful)



Source: Pyakurel et.al. 2011

When asked whether VAT is harmful or helpful, a majority of the Kathmandu respondents said they had no idea about the harmfulness or helpfulness of VAT.” Interestingly those who responded positively on the issue of VAT also raised the question of its ill practice. “We pay VAT but many merchants cheat us by issuing fake bills” most of the respondents reply. Quite a big number of Kathmandu respondents (27 percent) responded directly that “VAT does not help in the development of the country” whereas 33 percent respondents from Kathmandu, and 18 percent respondents from Kushma argued that “VAT collection and utilization system is not transparent”.

As the subsequent sections of the questionnaire were related to land taxes, respondents were asked about the amount of land tax paid, and whether the tax is fair or not. Their answers are as follows.

Table 3
The Amount of Land Tax Paid by Respondents

Field	Social Composition	Brahmin		Chhetri		Jananati		Madhesi		Dalit		Unspecified		Total	% of Total
		M	F	M	F	M	F	M	F	M	F	M	F	M&F	M&F
Kathmandu	Answered in amount (Rs 20-150)	3	0	0	1	0	0	0	0	0	0	0	0	4	26.7
	Paid but no Idea about Amount	2	1	0	1	0	1	0	0	0	0	0	0	5	33.3
	not Paid	0	0	0	0	3	1	1	0		1	0	0	6	40.0

Parbat/ Kushma	Answered in amount (Rs 10-150)	5	0	1	0	2	1	0	0	2	0	1	0	12	70.6
	Paid but no Idea about Amount	1	1	0	1	0	0	0	0	0	0	0	0	3	17.6
	not Paid	0	0	0	0	0	0	0	0	1	0	1	0	2	11.8

Source: Pyakurel et.al. 2011

The data presented above state two different scenarios in two different fields. The first one is that the land revenue in Kathmandu valley is more than in Kushma, and the second scenario is that fewer people staying in Kathmandu valley have their own land properties in comparison to the residents of other semi-urban and rural areas. According to the data collected in Kushma, 70.6 percent respondents (except one each woman respondent from Madhesi and Dalit community) have been paying land revenue, and all of them, except a Brahmin respondent, pay Rs. 10 to Rs. 150 as land tax. However, in Kathmandu, almost one-third respondents answered that they had no idea about the amount and even if they were paying land revenue, 40 percent respondents seemed to have not possessed any land property as they answered that they had not paid any land tax.

When asked whether land tax was fair or unfair, the response was as follows:

Table 4A
Whether the Land Tax is Fair or Unfair.

Field	Social Composition	Brahmin		Chhetri		Jananati		Madhesi		Dalit		Unspecified		Total	% of Total
	Gender	M	F	M	F	M	F	M	F	M	F	M	F	M&F	M&F
Kathmandu	Fair	4	0	0	0	0	2	1	0	0	0	0	0	7	46.7
	Unfair	1	1	0	1	1	0	0	0	0	0	0	0	4	26.7
	Do not know	0	0	0	1	2	0	0	0	0	1	0	0	4	26.7
Parbat/ Kushma	Fair	6	0	1	0	2	1	0	0	2	0	1	0	13	76.5
	Unfair	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
	Do not know	0	1	0	1	0	0	0	1	0	1	0	0	4	23.5

Source: Pyakurel et.al. 2011

Here, a little less than a half of the respondents (46.7 percent) from Kathmandu, and above 75 percent respondents from Kusuma considered the land revenue system as fair. On the question of whether land tax is helpful or harmful, the answer was as follows:

Table 4B
Respondent's perception towards Land Tax (helpful/harmful)

Field	Social Composition	Brahmin		Chhetri		Jananati		Madhesi		Dalit		Unspecified		Total	% of Total
	Gender	M	F	M	F	M	F	M	F	M	F	M	F	M&F	M&F
Kathmandu	Helps for Country's Dev	2	0	0	0	0	2	0	0	0	0	0	0	4	26.66
	Does not help	1	0	0	0	0	0	0	0	0	0	0	0	2	13.33
	Non Transparent	1	0	0	1	1	0	1	0	0	1	0	0	5	33.33
	Do not know	1	1	0	0	2	0	0	0	0	0	0	0	4	26.66
Parbat/ Kushma	Helps for Country's Dev	5	1	1	0	2	1	0	1	0	1	1	0	13	76.46
	Does not help	1	0	0	1	0	0	0	0	0	0	0	0	2	11.76
	Non Transparent	0	0	0	0	0	0	0	0	2	0	0	0	2	11.76
	Do not know	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Pyakurel et.al. 2011

Regarding the question about whether land tax was harmful or helpful, only four respondents (two Brahmin males and two Janajati females) from Kathmandu answered that land tax helps in the development of the country, whereas more than 76 percent (13 out of the total 17) respondents from Kushma replied that "land tax helps in the development of the country". Interestingly, those who replied in the negative were categorical in saying that "it does not help in the country's development as it is not transparent". When asked about the amount of income tax paid, the respondents answered as follows:

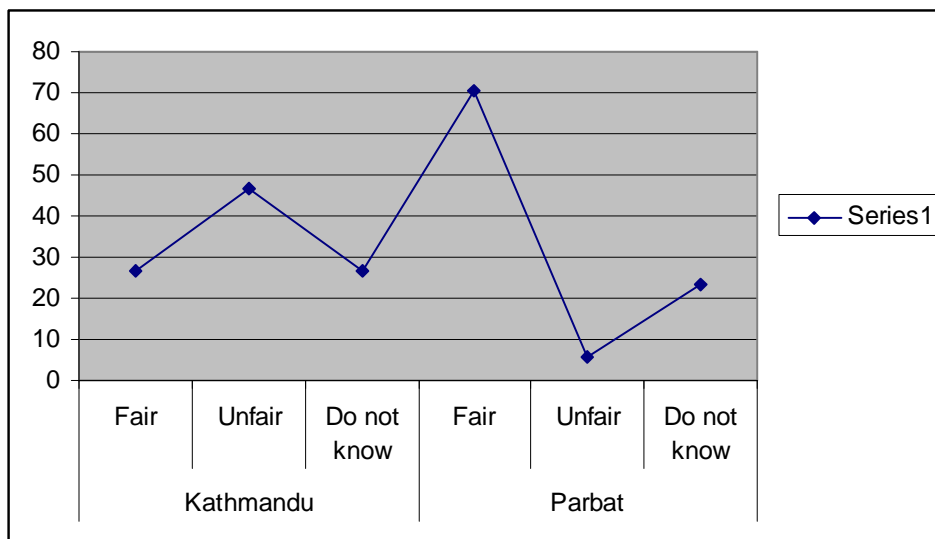
Table 5
The Amount of Income Tax Paid by Respondents

Field	Social Composition	Brahmin		Chhetri		Jananati		Madhesi		Dalit		Unspecified		Total	% of Total
	Gender	M	F	M	F	M	F	M	F	M	F	M	F	M&F	M&F
Kathmandu	Answered in amount (Rs 100-150)	4	1	0	1	0	1	0	0	0	0	0	0	7	46.7
	Paid but no Idea about Amount	1	0	0	0	0	1	1	0	0	0	0	0	3	20.0
	not Paid	0	0	0	1	3	0	0	0	0	1	0	0	5	33.3
Parbat/ Kushma	Answered in amount (Rs 10-130)	5	0	1	0	1	1	0	0	2	0	0	0	10	58.8
	Paid but no Idea about Amount	1	1	0	1	0	0	0	1	0	0	0	0	4	23.5
	not Paid	0	0	0	0	1	0	0	0	0	1	1	0	3	17.7

Source: Pyakurel et.al. 2011

As per the Table 5, about 47 percent respondents from Kathmandu valley could clearly mention the amount of income tax they were paying whereas about 20 percent said that they did not have idea about the exact amount of income tax they paid. Also, 33 percent respondents said that they did not pay income tax. But in Parbat/ Kushma about 59 percent respondent mentioned the amount of they paid as income tax but about 24 percent had no idea about it. Almost 50 percent respondents clearly answered the tentative amount of income tax they paid. The following chart states different answers on whether income tax collected by the authority was fair or unfair.

Chart: 8
Whether the Income Tax Collected by Authority is Fair or Unfair



Source: Pyakurel et.al. 2011

The following were the answers of respondents against the question asked about the reason of collecting tax.

Table 6
Reasons of Collecting Taxes

Field	Social Composition	Brahmin		Chhetri		Jananati		Madhesi		Dalit		Unspecified		Total	% of Total
		M	F	M	F	M	F	M	F	M	F	M	F	M&F	M&F
Kathmandu	To run the country	4	1	0	1	2	2	1	0	0	0	0	0	11	73.3
	For Country's development	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
	Do not know	1	0	0	1	1	0	0	0	0	1	0	0	4	26.7

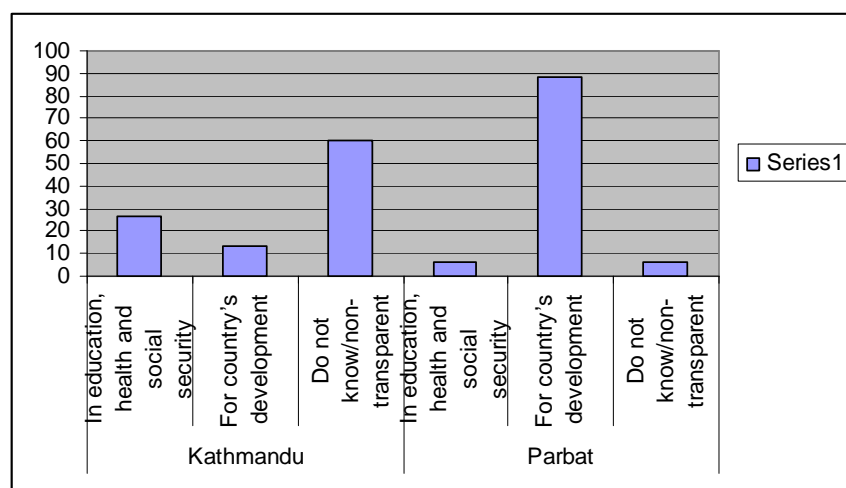
Parbat/ Kushma	To run the country	4	0	0	0	1	1	0	0	0	0	0	0	6	35.3
	For Country's development	1	1	1	1	0	0	0	1	2	1	1	0	9	52.9
	Do not know	1	0	0	0	1	0	0	0	0	0	0	0	2	11.8

Source: Field survey 2011

On the question of the amount of tax to be charged, 40 percent respondents from Kathmandu and more than 53 percent respondents from Kushma stated that 0.3-5 percent tax should be imposed on the total annual income. On the question of the amount of the tax they are actually paying, three respondents from Kathmandu replied that they paid Rs. 9000-12000 per year, whereas nine respondents from Kushma replied that they paid Rs. 6000-10000 tax annually. Also, six respondents from Kathmandu said that they paid 1-2 percent tax of their total income whereas three respondents from Kushma stated that they paid up to 20 percent tax of their income. As earlier, the number of non-tax payers is more (40 percent) in Kathmandu whereas there were only two respondents (11 per cent) who did not pay taxes.

When asked how government was utilising taxes, the answers were as follows:

Chart: 9
How Government Uses Taxes



Source: Pyakurel et.al. 2011

Again, the data presented above (Table 6) state that the respondents from Kushma seemed to be more positive and aware towards tax system than those of Kathmandu respondents. It is because of the fact that 94 percent respondents from Kushma stated that the tax collected by the government was being used in social security and overall development of the country,

whereas nine respondents in Kathmandu which comprise 60 percent of the total respondents replied that the tax system was not transparent.

On the question of how the authorised bodies collected taxes, all the respondents of both the fields except one Chhetri female from Kathmandu answered that they had to go to the offices to pay their taxes. On the question of what changes they expected in the tax system, they suggested that the system of collecting tax should be fast and there should be a single criterion of imposing tax. They suggested reforms in the tax system but did not categorically say what types of reform they want to see in place. Also, two Brahmins along with Dalit respondents from Kushma stated that they want a strong law against the tax evaders. When asked if they would be willing to pay more taxes if they saw expected change, two-thirds of the respondents from Kathmandu (five Brahmin males, a Brahmin female, a Chhetri female, two Janajati females and a Madhesi male) and 94 percent respondents from Kushma answered "yes" whereas two respondents from Kathmandu, who were Janajati males, answered "no," and rest of the respondents said they did not know.

After analysing all the information gathered from both Kathmandu and Kushma field surveys, it can be said that a majority of the population have the basic understandings of taxation. However, people from Kushma (semi-urban area) seemed to have more knowledge on local tax system than the residents of Kathmandu-the capital city. But if follow the date, Kathmandu is the major tax collection centre of Nepal from where more than 80 per cent revenue gets generated. According to data, Nepal's eight, out of 75 districts, collects 87 per cent of Nepal's total tax, and the rest 67 districts collects only 11 per cent of it (Prasad 2012). Interestingly, Parbat belongs to the second category whereas Kathmandu belongs to the first. Here, one can question why such ignorance is there in Kathmandu? Also, a further question may be asked if such lack of knowledge has impact on Nepal's overall tax governance?

It seems that there is no single answer to this question. However, they seemed to be more aware on the issue of tax in Kushma also because these taxes were recently introduced in those areas. New taxes always generate debate and discussion that ultimately increase awareness in the society. Kathmanduites knew very little about these taxes perhaps because they had been paying these taxes for long and the issues were not new phenomena for them. According to the study conducted in 2011, small town factor of Kushma is also one of the major reasons for their knowledge on tax as people know each other very well in a small town and they have the tendency to do things in a more transparent manner. In fact, none of them can remain immune from paying garbage management tax and other forms of taxes. But

in the city like Kathmandu, only landlords or owners of the house pay most of the local taxes. The study shows that people are desirous to pay taxes if timely reforms are introduced in the existing tax system. The study further shows that there are still a lot of efforts to be made for enhancing the awareness of the general people on various issues of tax.

Yes, respondents are right in putting some conditions before agreeing to pay more taxes. But a big concern is about the mechanism in order address those concerns made by the tax payers. It is, as stated earlier, because of the fact that there is very strong nexus between tax defaulters, politicians and taxing authorities. Here, one can argue saying that the Nepal's tax system is bias to lowest class peasants and poorest of the poor, but friendly for middle and upper middle class family. For instance, most of the poor peasants pay not only direct but also indirect taxes. They are the one who cannot escape paying land tax even if the land is small in size and less fertile. In other words, it is impossibility to refuse paying land tax in Nepal. But there are many ways to escape taxes by middle classes, upper middle classes and upper classes. For example, reports states that the big house owners who earns by renting their house rarely pay rental taxes. Also, similar case has been witnessed for high earning professionals as well. That is why, a few respondents of Kusma suggested making tax payment compulsory. They raised this issue because the existing income tax act is based on a self-assessment system. That requires one to calculate tax by himself using the income tax forms prescribed by the tax administration. The tax authorities have to accept the taxpayers' declarations. Only if the tax administrators find reasons for a change of what a taxpayer has declared then they can amend his/her statement⁵.

According to official data only around 10 per cent of the house owners have been paying taxes (*The Kathmandu Post*, April 9, 2012), and among them many have been undervaluing the rental contract and paying less than what is due by presenting undervalued rental contracts ((*The Kathmandu Post*, May 1, 2012). Generally, anybody who makes earning by giving their house, land, land and house and other properties will come under the rental tax net, according to the IRD. But more than 90 per cent people avoid paying it. If follow their social status, they belong to above than middle classes. The IRD states that it has also been facing difficulties in order to bring high earning professionals under the tax net as their associations have been unwilling to provide details of their members. It is reported that the IRD had written to the Nepal Bar Association (NBA), Medical Council, Veterinary Council, Institute of Chartered Accountants of Nepal (ICAN) and the Department of Cooperatives,

⁵ Ibid

among others, a month ago asking for particulars of their members. However, the IRD said they have not fulfilled its request. “We are really shocked with the unprofessional behaviour of most of the professional organisations from whom we have asked for details of their members,” the Kathmandu Post quotes a senior IRD official, who did not want to be identified, as saying. “Our aim is to compare the number of professionals who are registered with the tax office and those who are not,” he states.

If follow a recent report by Department of Revenue Investigation of Nepal, it is claimed that Rs 3.44 billion after investigating different cases of revenue leakages during the first four months of the current fiscal year. According to another report, 385 firms have been found to be engaged in producing counterfeit VAT bills in order to evade taxes. Interestingly, most of these firms which were found to be engaged in producing counterfeit VAT bills in order to evade taxes are big corporate houses in Nepal. According to a report (*Kantipur*, May 25, 2012) 4402 tax payer firms are under Inland Revenue Department (IRD)'s scanner for VAT/Tax evasion in Nepal in 2012. Similarly, another report (Ghimire 2012) states that there are around 3200 business firms, mainly small and medium-sized entities having annual transaction of more than 2 millions, which are found VAT evaders over the past two years. These firms allegedly inflicted loss of Rs. 4 billion on state confers either by evading VAT or not registering for VAT⁶. Also, only around 200 out of around 700 brick kilns operating across the country, are registered with VAT. The IRD officials said that the factories have been refusing to pay VAT despite conducting transactions worth millions of rupees. Interestingly, instead of settling their outstanding dues, it is reported that the firms under the IRD scanner are exerting pressure on revenue officials for waivers through local Chambers of Commerce and Industries (CCIs). “We are facing pressures from VAT defaulters for dues waiver. We've also been getting memorandums from local CCNs for such waivers”, a report quotes Tanka Mani Sharma, Director General of IRD, Nepal (Ghimire 2012). According to government officials, they are helpless in bringing firms under VAT threshold. Brick kiln firms can be one example to show how Nepal's tax system works. Out of around 700 brick kilns operating across the country, it is said that only around 200 are registered with VAT. IRD officials said that the factories have been refusing to pay VAT despite conducting transactions worth millions of rupees. “We have waited for them for a long period to come under the VAT net, and the government had also formed a dialogue committee,” said Sharma. “The dialogue committee has recommended that VAT should be imposed on the

⁶ Existing laws requires business enterprises with annual turnover of more than 2 million to register for VAT.

brick factories," he further states⁷. And, once one reads the statement of Director General of IRD, Nepal regarding the issue, he/she understands government's helplessness to bring them under VAT threshold. "Our effort to get them registered for VAT is not paying dividend" he states (Ghimire 2012).

In fact, the type of tax dodging creates problems for not only the poor but also the wealthy nations. It forces low-income countries like Nepal to struggle even more to provide basic needs for their citizens. When large corporations avoid paying their fair share of taxes, it forces everyday people to shoulder the majority of the tax burden. In that situation, the genuine tax payers will also have no option either to follow other defaulter or to shut down the business. And eventually, it contributes to economic, financial, political and social crises. But, it is unfortunate reality for the world that there is still a large section of population which see taxing and tax related issues are not their primary concern. As a result, they remain quite even though a handful people manipulate the huge sum of state revenue.

Here, a question comes if there is any way out to overcome the problem. Since rampant corruption, at all levels of government, is becoming the definitive characteristic of the country's rocky transition to peace, after a decade-long civil war between Maoist rebels and the state, tax system alone cannot seen in an exceptional manner (*The Economist*, May 31, 2011).⁸ To many observers these problems seem to share a common cause: politicians enjoy freedom to plunder with impunity. The similar scenario of corruption can be found in local government. Each year local authorities including Village Development Committees (VDCs) and municipalities receive funds designated for development. But reports state that as much as 60 to 90 per cent of all funds are misused in the southern plains, an area called the Terai whereas such a misuse is between 25 and 50 in hill districts. The following quote shows the level of corruption at the local level.

...local officials, politicians, journalists and activists told a series of remarkably consistent stories. Each was marked by systematic fraud, the financing of political networks to benefit powerful local figures and, indirectly, criminal gangs. The accounts the storytellers gave of individual scams became repetitive: buildings paid for but never built, or simply repainted and passed off as new. The same roads were supposedly rebuilt—as if from scratch—every year. A commonly reported trick is to

⁷ for details, see <http://ekantipur.com/2012/03/19/business/ird-to-issue-final-call-to-brick-makers-to-pay-vat/350802.html>, accessed by author on June 12, 2012.

⁸ "Aid and corruption in Nepal: Low road through the Himalayas" *The Economist*, May 31, 2011.

record as one item the construction of a road from A to B and then again, on a separate line, the road from B to A⁹.

The fact has been recognized by even senior officials of the government. “If I take action against corruption,” said the Chief District Officer in one Terai district, “there will be a mob outside and inside my office(*The Economist*, May 31, 2011).” He is, in fact, true in his statement. The Chitwan incident proves him true. It was an incident where Narayangadh market remained tense on June 6, 2012 after merchants set on fire vehicles used by officials of the DRI and locked up members of an inspection team. It is said that all hell broke loose after the seven-member rapid inspection squad led by DRI director Bharat Raj Subedi stormed into the Laxmi Narayan Bastralaya in Sahidchok, Narayan Chowk in the early hours and sealed the store on charges of evading tax. According to the officials, they suspected a significant amount of tax evasion in the store. DRI Director General Janma Jaya Regmi said they raided the store after they received information that it was involved in illegal transaction of imported readymade clothes. “The squad was sent only after we received an authentic report that smuggled apparels in large quantities were dumped in the four-storey warehouse”, he states. He also accused the Chitwan Chamber of Commerce of not helping the government in tackling tax evasion. Once the shop was raided, the mob comprising the locals forced the DRI officials to break the government seal.

Here, a serious question comes, and the question is why the general public is either reluctant or supportive to the defaulters if there is tax related case? It seems that Nepalese still live with past hangover of considering tax as resource collected for the survival of institution of monarchy. In other words, it seems that the majority of the people have not realised the fact that the government collects tax so that it can introduce and implement various new welfare programs for the people.

In fact, for Nepalese government service was regarded as *RAJAKO SINDUR* (the grace of the favor of the king), and the salary earned by the government servant was considered as *RAJAKO NUN* (the salt and grain given by the king). That is why, there was a saying in Nepali, *RAJA KO KAM KAHILE JALA GHAM* (while doing the king’s work, the only concern is when will the sun set) in order to slow decision process and lack of working attitudes in the government. What we meant to say here that the civil servants never thought that they were

⁹ for details, see "Aid and corruption in Nepal: Low road through the Himalayas" available in <http://www.economist.com/blogs/banyan/2011/05/aid-and-corruption-nepal>, accessed by author on June 12, 2012.

taking salary from the public exchequer (Dangal 2005:76). Once there is such impression, than the general public do not bother about the kind of problem the country's tax system has been facing. More disappointing part was that the majority of the people seem to have seen no difference even after the institution of monarchy has gone. The genuine cause behind it is that the governments formed after the end of monarchical rule also has not been performed differently as far as tax collection and distribution is concerned.

Again another question comes about whether there are way outs in order to handle with the problem which is not only complication but also very necessary to do in order to institutionalise the democratic process. Generally, anticorruption campaigns cannot succeed without involving the people and making them aware that they are the real master of national resources and politicians and governmental officials are public servants. Unless the poor and ignorant people are made aware of their position and the role of the public officials, they may, at least, be not be able to ask questions when they encounter a situation of tax avoidance, bribery and corruption. It is because more than 90 percent of the people who live in the villages, and are poor and ignorant are the victims of corruption because they are the ones who are being cheated by the government officials, politicians and development planners by taking advantage of their ignorance. Clearly, the question is how to make the public aware of the grievous impacts of corruption? If they are made aware of all the evils of the society then officials cannot manipulate and intimidate them. And, only a strong political commitment can make the people aware about the cost of corruption and can involve them in combating corruption in Nepal.

Finally, moving towards more and more democracy is only the option for countries like Nepal to combat corruption as it does not increase as a society becomes more democratic. . It is because of the fact that corruptive behaviour cannot be widely publicized in authoritarian societies but it is otherwise in the modern democratic system. Then, corruption in high places is gets more and more visibility. People will be less tolerated than before once the country heads toward fuller democratization. Watchdog agencies such as mass media, civil society, and judiciary and so on should be empowered in order to point out the irregularities of public officials and their collusive relationships with the powerful interests in the society. They should be provided role to aware people about the importance of tax in country's development so that people start watching not only the system of collecting and spending taxes, but also connection between tax avoidance, corruption and economic crisis. In order to

get rid of corruption and spread the fruits of economic growth and development in Nepal, it needs to introduce a culture of discipline rather than mere political idealism.

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