

Tax System Reform in Nepal: Analysis of Contemporary Issues, Challenges, and Ways Forward

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Abstract : The history of taxation in Nepal dates back to antiquity. However, the modern tax system gained its momentum after the establishment of democracy in 1951, which initially focused only land tax and tariff on foreign trade. In the due time, several taxes were introduced, such as direct taxes, indirect taxes, and non-taxes. However, the tax structure in Nepal is heavily dominated by indirect taxes that contribute more than 60 % of the total revenue. The government has been mobilizing revenues through a series of tax reforms during the Tenth Five-year Plan (2002 – 2007) and successive Three-year Interim Development Plans by introducing several tax measures. However, these reforms are regressive in nature, which does not lead the overall economy towards short-run stability as well as in the long run development. Based on the literature review and discussion among government officials and few taxpayers individually and groups, this paper aims to major issues and challenges that hinder the tax reform effective in Nepal. Additionally, this paper identifies potential way and process of tax reform in Nepal. The results of the study indicate that transparency is a major problem in Nepalese tax system in Nepal, where serious structural constraints with administrative and procedural complexities envisaged in the Income Tax Act and taxpayers are often unaware of the specific size of tax which is to comply them. Some other issues include high tax rate, limited tax base, leakages in tax collection, rigid and complex Income Tax Act, inefficient and corrupt tax administration, limited potentialities of direct taxes and negative responsiveness of land tax with higher administrative costs. In the context, modality of tax structure and mobilize additional resources is to be rectified on a greater quantum by establishing an effective, dynamic and highly power driven Autonomous Revenue Board.

Keywords : corrupt, development, inefficient, taxation

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