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Tax System Of Nepal: Issues And Destinies

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INTRODUCTION

This paper intends to examine: existing tax structure of Nepal, its main issues and, possibility of further improvements in Nepal's tax system?

The foremost goal of any tax system can be viewed in either ways — that of revenue and that of incentive. In the case of developing countries, like Nepal, where there is a backlog of unmet public expenditure accompanied by large fiscal deficits, the dominant objective of taxation has ben to finance public expenditure. In developed countries the primary objectives would be to correct market imperfections, resource allocation and income redistribution; and revenue productivity can be viewed as a second-best objective.

To attain the revenue related objective, several new taxes have been levied in Nepal since the adoption of central planning process in 1956. In the year 1962/63, a comprehensive income tax was introduced. Sales tax, contract tax and house and land rent tax were levied in the year 1965/66. Besides. road and bridge maintenance tax, motor tax, etc. have been introduced in subsequent years (Nepal 1995 a). In 1990, the Interim Government introduced property tax with th hope that this would help to reduce the inequality between rich and the poor (MOF 1990). Now HMG/N has introduced Value Added Tax (VAT) in full form from FY 1998/99.

TAX STRUCTURE OF DEVELOPING COUNTRIES

To analyse Nepal's present tax structure, revenue composition of developing as well as industrial countries by income group would be helpful. Table 1 and Table 2 in annexe jointly present the comparative statistics of central governments' revenue structure of some selected countries for the year 1986 and 1993 respectively. In 1986, the share of direct tax to total revenue ranged bewteen 8.0 percent to 60.0 percet and it remained 9.9 to 63.8 percent in 1993. The lowest figure was in low-income

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economies and the highest figure was in high-income economies. The tax-GDP ratio was below 20 percent in the case of low-and middle-income economies where as it was above 20 percent in the case of high-income economies. This structure was some what same in both of the reference years. Both tables again jointly reveal the following episodes :

— Share of direct tax are directly related to degree of economic development.

— Share of taxes on domestic goods and services are more or less same in all economies.

— Share of taxes on international trade and transaction is inversely related to the degree of economic developmet.

— Share of revenue and expenditure appear to rise with per capita income with wider variation across countries implying that level of income is only a partial index of taxable capacity.

TAX STRUCTURE OF NEPAL

Nepal is one of the lowest taxed economy in the world as her tax-GDP as well as tax-GNP ratio are the lowest among SAARC countries and among the rest of the world as well (Table 1 and 2). It was below one-half, 6.8 percent of the average tax-GDP ratio of Asian developing countries in 1985, and still clustered around nine percent; but moderate tax-GDP ratio ranged from 15 to 18 percent in other developing countries (World Bank 1991). Table 3 further reveals rather disappointing scenario of tax-GDP ratio for the reference period of 1985/86 to 1994/95. It fluctuated cyclically between 6.8 to 9.4 percent of GDP which was quite below the average of Asian developing countries.

The whole tax structure is dominated by indirect taxes, commodity taxes on foreign trade and tax on domestic goods and services, and contribution of direct tax, tax on property, profit and income, and land revenue and registration duties, is even below one-fifth of total tax revenue during the entire decade (Table 4). This is rather the manifestation of inappropriate tax polices and administrative bottlenecks of direct tax structure. Because there is great difficulty in taxing professionals like doctors, lawyers etc., small businessmen, and of course the better off farmers who fall within the legal scope of income tax. They are most unwilling to provide any tax related information about their business activities to tax administration. In this background, tax authorities have great difficulties in constructing any alternative basis upon which to bring the income of such hard-to-tax groups whithin the ambit of income tax (Nepal 1995a).

The other reasons as applicable in most of the developing countries (Goode 1986) for the low significance of direct taxes are the absence of : predominantly money economy, a high standard of literacy among tax payers, honest and reliable accounting records, a large degree of voluntary compliance on the part of tax payers, healing political conditions, and honest and efficient tax administration, which have not created conducive conditions warranted for successful use of direct taxes.

In this context, inference can be drawn that as indirect taxes require less administrative effort for effective collection and thus heavy reliance on indirect taxes is self justifiable in Nepalese context.

The components of indirect taxes are commodity tax on foreign trade and internal commodity taxes on goods and services. During the study period, the contribution of latter category was dominant implying the increasing domestic economic activities, both deep and wide. But still more than one third contribution of custom duties is rather manifestation of low level of economic development as the base of this tax is quite volatile and depends on the condition and behaviour of trading partners. Its contribution in case of industrial economies is quite insigificant (Table 1 and 2). But in Nepalese context the increasing share of custom duties in general and that of import duties in particular could be justified on the ground that it provides significant amounts of revenue, helps to keep the level of imports consistent with the other balance of payments' components, influences the structure of imports so as to free valuable foreign exchange for essential or development imports, grants protection to local production of goods that are also imported, redistributes income, and sometimes serves as bargaining tools in trade negotiations.

For the reference period of 1985/86 to 1994/95, it has been observed that more than one third of total revenue is contributed by commodity tax on foreign trade (Table 4), in which, import duties contribution is more than 80 percent throughout the period. This high share of import duties is due to high coustoms rates on luxury goods for providing protection to local production and restricting unnecessary imports.

These multi-target aspects of the use of customs duties highlight their historical importance which may decline along with the recent developments in regional and international trade organisations like SAPTA, WTO and trade liberalisation. Thus, there is an urgent need to reform the domestic taxes even for maintaining the current tax-GDP ratio, while to raise it over time is another issue.

ISSUES

The major issues of Nepal's fiscal system can be outlined as follows:

Declining But Still High Fiscal Deficits

Despite a series of prospected reforms, both in revenue and expenditure fronts the fiscal dificits still remained above seven percent of GDP (Table 3). This may be due partly to ascendant impact of development expenditure which was dominated by a few but popular and even costly entitlements like social services, rural infrastructure, and power generation, generally tied with demographic and economic factors. In order to finance these entitlements revenue policy has been skewed, making it more difficult to meet resource gap through increased taxes.

It is obvious from the fact that tax-GDP ratio never exceeded ten percent and it was even clustered around eight percet throughout the years 1985/86 to 1994/95. This relative stagnancy of tax-GDP ratio over time reflected past inward-looking economic policy, administrative bottle-neck, low tax-base and perhaps, government's preference towards gaining popularity by not bringing able ad wealthy within the tax-net, rather financing the public expenditure through grants and loans which was available at low costs, with 1 percent, with long term maturity, above 40 years. Due to the perference towards loan financing instead of tax, the external outstanding loan reached upto 54 percent and total outstanding loan amplified to 67.8 percen of GDP in the year of 1994/95 (Table 8 and World Bank 1996).

Inconsistencies Between Tax Polices And Programmes

To fill the resource gap from domestic front, government has pronounced various tax policies with multiple objectives. In substance, the revenue related objectives of government stated in annual budget speeches, are highly confined; to increase the share of direct tax for reducing economic inequality in the society, to reform the tax administration in order to increase the domestic resource mobilisation, to reduce the tax rate which contributes for liberalisation and provides relief to the people at large, to provide long term direction to revenue policy by making tax composition appropriate, to consolidate tax revenue with economic activities, to make it elastic and to raise dependency on direct tax for revenue mobilisation, and to make revenue administration and collection process simple and effective, to mobilise maximum revenue from low tax rates by broadening tax base of both direct and indirect taxes, and to increase the contribution of direct tax, to direct tax structure towards long-run stability by broadening the base and reducing the rates, to mobilise local resource through activating local bodies, and to make tax administration fair, able, efficient and transparent, to arrange necessary prerequisites in tax administration for moving towards value added tax (VAT) from the 1997/98 fiscal year, to change in tax structure with in-built elasticity by broadening the base and making the existing import based revenue structure scientific; to encourage productive sector of the economy, to enhance economic activities, and to provide relief to common people (MOF 1991-1997).

The government's inability to implement its tax policies into action is reflected from the fact that though pronounced many times to increase the share of direct taxes, it was confined below 20 percent of total revenue throughout years 1985/86 to 1994/95. Such a hit-or-miss policy is hardly the desirable approach to development of tax polices. This phenomenon could be supported by the fact that expectations were not realised in most of the years (Tabl 9), as the discrepancies between expected and actual revenue collection were significant upto 16 percent.

Limited Potentiality Of Direct Taxes

Tax structure of Nepal is not conductive to elevate the tax revenue from direct tax (Table 4). Due to the number of tax incentives and concessions that had been granted, following the supply-side tax policy, for capital formation under the private sector, prevalence of self-employment keeping many people, hard-to-tax group, away from entering the ambit of direct tax net, absence of agricultural taxation, blanket exemption of taxation in industry sector, existence of mass poverty; and weak tax administration, ineffective tax laws, and rent-seeking behaviour, it contribution throughout the years 1985/86 to 1994/96 confined below twenty percent of total tax revenue (Nepal 1996a).

In Nepal, there is no provision of any inquiry of investigaion of source of resources for tax purpose which is invested in the establishment of industrial ventures, and debentures issued by various companies as well as the securities issued by His Majesty's Goverment which has been eroding the tax base. Institutions providing vocational and skill training are given five years income tax holiday. Income tax in *deemed export*, selling of commodities within the country in foreign convertible currency, is fully exempted ad full deduction is given on advertisement costs. Additionally, wealth tax has been abolished in 1995, only after the five years of its introduction without analysing its future prospects and replaced it by house and land tax. Similarly exemption limit for individual income tax has the tendency to be increased in every consecutive fiscal years.

During the first-half of 1990s, the common practice was lowering the tax rates without widening the bases. So the contribution of tax on property, profits and income in total tax revenue confined below ten percent throughout the yars 1985/86 to 1994/95 (Table 4). The trend of tax cuts without reform in the bases can introduce more distortions of efficiency and equity than they correct. The main barriers, to change existing tax system, even moderately, tend to be fundamental because of the prevailing view that old taxes were good taxes. Justification of this statement is obvious that business community does not seem to be ready to accept VAT easily instead of existing cascading taxes like sales and excises.

Declining Built-in-Flexibility Of Major Taxes

Tax system is not only to provide revenue but also should act as automatic stabilzer. Stabilizig capacity could be judged by its built-in-flexibility and also called elasticity. An elastic tax system is highly advantageous for the public expenditure activities which helps to balance the objectives like equity, growth, and efficiency in an economy simultaneously.

Table 10 accumulates regression results about built-in-flexibility recorded by various researchers during the period of three decades, 1964-1993. The obvious inference from the table is that built-in-flexibility, both elasticity and buoyancy, of different revenue components has been declining over time despite various efforts to make it elsatic. For example, elasticity coefficient of tax revenue was 1.82 during 1964/65 to 1970/71, reduced to 0.92 durig 1964/65 to 1981/82, and confined to 0.51 during 1968/69 to 1992/93. Likewise was the predicament of buoyancy coefficients.

What appears from the results is that the latter years' changed composition of taxation was not friendly to improve the automatic growth of tax receipts and it would not help to bridge the resource gap given the present rate structure and it would be difficult to raise the share of revenue in GDP by 2.5 percentage points as anticipated by NPC during the Eighth Five Year Plan 1992-97 period. Given the present tax structure even maintaining the prevailing tax-GDP ratio, more discretionary efforts would be needed making the tax structure further complex which in turn further reduces its built-in-flexibility.

DESTINIES

In the light of Nepal's complex and skewed existing tax system, tax reform is the only way out to do away with the problems which can also adress the problems as suggested by World Bank (1991), of: avenue to address inadequate social and economic infrastructure due to chronic fiscal deficits through increased revenue, reduction or real income by controlling avoidance and evasion through reducing efficiency costs of taxation, vertical as well as horizontal equities through lifting the tax burden off the poorest section of the society and redistributing the burden equitably based on ability to pay by bringing wealthy and powerful into the tax net, and simplifying tax laws, broadening the tax base, and reducing the tax rates which could address the severe distortions in economic incentives.

Reforming The Indirect Taxes

In domestic front, sales tax had its ascendant impact and in the case of foreign trade tax, import duties scored high. During the years 1985/86 to 1994/95 period the former category ranged from 51.1 to 68.6 percent and the latter varied from 82.9 to 98.6 percent (Table 5 and 6). So, broadening the base of indirect tax generally implies improving the structure of sales taxes and international trade on goods and services. In recent years the VAT has come into favour as instrument for broadening the base of commodity taxation and more than 30 coutries, irrespective of their level of development adopted VAT within the period of three years 1990-93 (Table 11), and almost one hundred nations have bee employing one or another form of VAT so far (Dahal et al. 1995). Introduction of the

VAT by almost one hundred nations having heterogeneous economic conditions and degrees of development is most influential and becoming the source of inspiration for other countries too.

Nepalese VAT

His Majesty's Government of Nepal has intended to convert import/manufacturing level sales tax (MST) into VAT, despite continuing disputes, controversies and violent opposition by the trade-industry sector.

As indicated by the VAT Act-1996, Nepalese VAT would be a tax-credit-consumption type and be levied on all stages of production and distribution of imported, exported and domestically supplied goods and services. Imported and domestically produced goods and services would be taxed at single positive rate, probably 15 percent, and export would be taxed at zero rate under the destination principle. However, VAT Act-1996 had made provision to exempt some basic goods and services namely:

— Purchases of goods and services by Royal family members.

— Unprocessed food items, piped water, fire wood and kerosene.

— Basic agricultural production and inputs.

— Social welfare services.

— Goods made for the use of disabled.

— Passengers transport services.

— Goods and services related to educational and cultural activities.

— Personal services.

— The purchase and rent of land and buildings.

— Financial and insurance services.

— Postage and revenue stamps, etc.

The zero-rated items would be :

— Exports.

— Services rendered outside the country.

— Deemed exports, supply of goods and services within the country in foreign convertible currencies.

For VAT purpose, all vendors having annual turnover above the threshold to be specified by Act must be registered. If the annual turnover is below the threshold, then registration would be voluntary.

The operation of the VAT in Nepal and it's counterpart MST can be visualised with the aid of an illustration in distribution activities (Table A).

Table A
Operation of Tax-credit Consumption VAT Vs Import/Manufacturing Sales Tax (MST)

Assumptions : * 10% single rate VAT in each stage.
* 19% single rate sales tax at import/manufactring stage exemption of primary production.

VAT Regime							MST Regime			
Production and Distribution	Purchases	Sales	Value Added	VAT on Purchases	VAT on Sales	VAT Paid	Purchases	Sales	Value Added	Sales Tax
Primary Producer	0	200	200	0	20	20	0	200	200	-
Manufacturer	200	2000	1800	20	200	180	200	2000	2800	200
Wholesaler	2000	2200	200	200	220	20	2200	2400	200	-
Retailer	2200	2300	100	220	230	10	2400	2500	100	-
Total	4400	6700	2300	440	670	230	4800	7100	2300	200

Source : Computed With Arbitrary Figures By The Author

As depicted by Table A, with the same value added under the both regimes revenue productivity is higher, Rs. 230, in the VAT regime. Another beauty of VAT regime is that total initial tax burden, impact, is distributed throughout the production and distribution stages implying the broadening of the tax base. Both of these characteristics of a sound tax system are absent in existing MST regime. On the one hand, revenue productivity is low, Rs. 200, than in VAT system, and initial tax burden, impact, is solely concentrated on the manufacturing stage. On the other, this high impact, Rs. 200 in MST instead of Rs. 180 in VAT, in a single stage could either distort the economic efficiency, disincentive effect, or increase the tax evasion, illegal, and avoidance, legal, as well. The extent of evasion is the inverse function of chance of detection and degree of penalization, which are virtually nonexistence or insignificant in Nepal, implying high extent of tax evasion under prevailling MST regime. Yet, due to the lack of basic accounting system, high importance of small scale agriculture, domination of fragmented and small retail-trading and absence of effcient and impartial tax administration, the introduction of VAT with the hope of its noble features like *product neutral, factor-neutral, revenue-productive* and *growth-oriented* tax would really be questionable, at least in the present Nepalese context.

Reforming The Direct Tax

The main components of direct taxes are tax from individuals' property and income, and tax from public enterprises profits (Table 7). As the process of privatizing public enterprises is going on, the only reliable source of direct tax would be taxes on individuals' property and income. So, broadening the base of direct tax implies; subjecting more types of income, including agricultural income into the tax net, reducing, if not eliminating, many special purpose allowance, deductions, exemptions, and tax expenditure provisions.

In our case taxing agricultural sector is very sensitive both politically and socially. So, in the name of giving relief to the marginal farmers having insignificant land tax, it was revised downward from time to time and thus its share in the direct tax downgraded to 0.8 percent in 1994/95 from 79.4 percent in 1966/69 (Nepal 1995), which can virtually be very difficult to justify economically. Agriculture is the single largest sector of the economy which contributes more than 40 percent of GDP and absorbs more than 80 percent of the labour force. So, broadening the base of direct tax should include the exploration of revenue potentiality of agriculture sector along with broadening the base of individual as well as company income tax by eliminating various deductions, exemptions, allowances and tax expenditure provisions. Again, successful implementation of direct tax requires well efficient and impartial tax administration and simplified tax laws which are virtually not existing in the present Nepalese context.

Reforming The Tax System : A System Approach

Considering all the existing conditions as constraints rather than limitations, tax reform should intend to attain its all objectives: equity, efficiency and revenue productivity through constraint optimisation approach. However, partial reform may advance one objective at the cost of another. So the need is to view the entire tax structure as a system and reforming it by coordinating across tax-instruments i.e. direct vs. indirect, income vs. wealth, customs vs. domestic etc. For example, regressivity of single rate VAT could be balanced through income tax and transfer systems if direct tax system is well functioning. Otherwise, to correct the weakness of income tax and transfer systems rate differentiated VAT is desirable to address the eqity at the cost of administrative ease, provided revenue productivity is the foremost objective of tax reform. Similaryly, reforming the customs with liberalization of trade, to attain efficiency, could be maintained at the cost of revenue deficiency. So, trade liberalization should be accompanied by broadening the base of tax on domestic goods and services, probably by moving towards the VAT.

CONSIDERATION OF EXPENDITURE SIDE

Although rising revenue is the legitimate objective of tax reform, it should be accompanied by expenditure management, which depends on the relative role of the state and private sector. In this connection there are essentially two different issues which are sometimes confused (Nepal 1995a):

– How large should the state be in relation to total economic activity ?

– What type of policy instruments should the state employ ?

In industrial economies, it is claimed that the government is likely only to make things worse by intervening. But in underdeveloped economies like Nepal, there are evidences of a backlog of unmet public expenditure needs that are reflected in poor social indicators like mass illiteracy, low standard of living, and lack of both social and physical infrastructure. This may be due either to market failure or state failure or both. Thus the essence of the problem is one of balancing market failure against state failure, of calculating the costs o state inaction against the cost of state intervention. The solution which suggests itself is that the respective roles of the public and private sector should be determined by the comparative advantage of each while designing the expenditure policy. This advantage may differ from country to country. So, mere imitation of the model from other economies would not be suitable to uplift the national economy. Our own expenditure model should be developed and adopted which can help to accomplish the job of providing more employment, reducing the inequality of opportunity, wealth and income which ultimately would help to reduce the extent of mass poverty.

CONCLUSION

Obviously, inference that could be drawn from above analysis is that there would be no definite course of action about tax reform. This may be due to the deficiency of analytical framework and empirical foundations of entire fiscal system of Nepalese economy for making decision on the long-term perspectivs. Thus, the tax reform involves some degree of amalgamation among politico-socio-economic considerations with value judgment and demonstration effects of international environment.

However, our tax system, particularly indirct one, is on the anvil. Despite all disagreements and doubts about its implementation, government has implemented uniform VAT from the Fiscal Year 2055/56 (1998/99) with the hope that it would help to collect more revenue. As nothing can be done in a vacuum and there is the cob-web of suspicion, no one could be categorical about success or failure of the VAT on a *priori* basis. Yet, considering its flexibility, both in form and in content, VAT could be an engine of revenue productivity and degree of success depends upon how efficiently it would be administered and to what extent business community would provide voluntary co-operation to the VAT implementation programme.

Finally, the introduction of the uniorm VAT by superseding sales tax, hotel tax, contract tax and air flight tax, etc. is only the partial reform of Nepal's tax system which can not address the equity aspects. So, the VAT should be supplemented by excises and other non-tax measures, transfers. In the meantime some way must be found to bring agricultural income into the ambit of tax net to address horizontal equity.

ANNEXE

Table 1
Central Government Current Revenue Of SAARC And Selected Countries 1986

Country	Rank based on GNP	GNP per Capita ($)	Percentage of Total Current Revenue (TCR)					TCR as Percent of GNP	Expendit ureas Percent of GNP	Surplus /Deficit as Percent of GNP
			Tax on Income Profit, Capital Gains	Tax on Goods Snd services	Tax on Internati-onal Trade	Other Taxes*	Non tax Revenue (NTXR)			
Low Income Economies										
Nepal	4	150 (1.9)	8.0	40.7	27.7	6.2	17.4	9.2	19.7	-8.1
India	20	290 (1.8)	14.8	38.0	26.9	0.4	19.9	13.3	16.4	-8.1
Pakistan	28	350 (2.4)	11.9	33.0	31.0	0.3	23.8	16.2	23.1	-9.5
Sri Lanka	31	400 (2.9)	13.0	40.1	19.7	1.8	15.5	20.6	30.5	-9.2
Middle Income Economies										
Indonesia	42	490 (4.6)	40.4	23.3	4.9	1.8	29.7	23.1	26.9	-3.9
Philippines	44	560 (1.9)	26.6	36.4	23.7	2.5	10.8	11.5	10.6	-1.9
Thailand	55	810 (4.0)	20.7	43.9	22.2	2.0	11.1	16.3	21.7	-5.6
Korea	85	2370 (6.7)	25.2	42.7	14.9	5.5	11.7	18.8	17.8	-0.1
High Income Economies										
Australia	111	11920 (1.7)	60.0	23.5	5.2	0.5	10.9	25.8	27.9	-2.3
United Kingdom	106	8870 (1.7)	38.9	30.4	0.0	194	11.4	37.9	40.6	-3.4
United States	119	17480 (1.6)	50.1	3.9	1.7	34.7	9.5	19.5	24.5	-5.0
Denmark	114	12600 (1.9)	37.2	41.7	0.1	7.5	13.5	43.8	39.5	-3.8

* Other Taxes Includes Social Security Also.
Figure Within Parenthesis Gives Average Annual Growth Rate 1965-86.
Source : World Development Report 1988, World Bank, Washington D.C.

Table 2
Central Government Current Revenue Of SAARC And Selected Countries 1986

Country	Rank Based On GNP	GNP Per Capita (Us)	Percentage Of Total Current Revenue (TCR)					TCR As Percent Of GNP	Expenditure As Percent Of GNP	Surplus /Deficit As Percent Of GNP
			Tax On Income Profit, Capital Gains	Tax On Goods And Services	Tax On International Trade	Other Taxes**	Non Tax Revenue (NTXR)			
Low Income Economies										
Nepal	8	190 (2.0)	9.9	36.7	30.8	5.5	17.1	9.6	18.7	-6.3
India	20	300 (3.0)	18.7	32.1	24.9	0.4	23.9	14.4	16.9	-4.8
Pakistan*	31	430 (3.1)	13.9	29.1	26.3	0.5	30.2	18.4	24.0	-7.4
Sri Lanka	39	600 (2.7)	13.9	50.3	21.0	3.5	11.3	19.7	26.9	-6.4
Middle Income Economies										
Indonesia*	47	740 (4.2)	49.3	26.4	5.2	3.2	15.9	19.4	18.9	0.7
Philippines*	53	850 (-0.6	29.1	27.5	30.1	2.8	10.5	17.1	18.1	-1.5
Thailand*	77	2110 (6.4)	27.9	39.8	18.2	4.1	9.9	18.3	16.3	2.1
Korea*	105	7660 (8.0)	31.4	34.2	5.8	15.9	12.6	18.9	17.1	-2.2
High Income Economies										
Australia	113	17500 (1.6)	63.8	19.7	3.5	1.4	11.6	25.3	28.2	-2.3
United Kingdom*	115	18060 (2.3)	35.3	32.1	0.1	24.0	8.5	36.2	43.4	-5.1
United States	128	24740 (1.7)	50.7	3.8	1.6	35.0	8.7	19.7	23.8	-4.0
Denmark*	130	26730 (2.0)	37.8	38.3	0.1	7.8	16.0	42.1	45.5	-2.0

* Countries Having Introduced VAT Prior to 1993.

** Other Taxes Includes Social Security Also.

Figure Within Parenthesis Gives Average Annual Growth Rate1980-83.

Source : World Development Report 1995, World Bank, Washington D.C.

Table 3

Share Of Revenue, Expenditure And Resource Gap To GDP Of HMG/N

Year	GDP	Revenue		Tax Revenue		Non-tax Revenue		Expenditure		Resource GAP	
		Amount	Percentage Of GDP	Amount	Percentage Of GDP	Amount	Percentage Of GDP	Amount	Percentage Of GDP	Amount	Percentage Of GDP
1985/86	53215	4644.5	8.8	3659.3	6.8	985.2	1.8	9797.1	18.4	5152.6	9.7
1986/87	61140	5975.1	9.8	4372.4	7.1	1602.7	2.6	11513.2	18.8	5538.1	9.1
1987/88	73170	7350.4	10.0	5752.8	7.9	1597.6	2.2	14105.0	19.3	6754.6	9.2
1988/89	85830	7776.9	9.1	6287.2	7.3	1489.6	1.7	18005.0	21.0	10228.1	11.9
1989/90	99702	9287.5	9.3	7283.9	7.3	2003.6	2.0	19669.3	19.7	10381.8	10.4
1990 /91	116128	10729.9	9.2	8176.3	7.0	2553.5	2.2	23549.8	20.3	12819.9	11.0
1991/92	144931	13512.7	9.3	9875.6	6.8	3637.1	2.5	26418.2	18.2	12905.5	8.9
1992/93	165262	15148.4	9.2	11662.5	7.1	3485.9	2.1	30897.7	18.8	15749.3	9.6
1993/94	191540	19580.8	10.2	15371.4	8.0	4209.4	2.2	33597.4	17.5	14216.6	7.4
1994/95	210138	24575.2	11.7	19660.0	9.4	4945.1	2.4	39060.0	18.6	14484.8	6.9
AAGR Percent	14.7	18.1		18.3		17.5		14.8		10.9	

Source : Economic Survey 1996, MOF, HNG/N.

Table 4
Composition Of Tax Revenue Of HMG/N

Year	Revenue	Commodity Tax On Foreign Trade		Internal Commodity Tax On Goods And Services		Tax On Property, Profit And Income		Land Revenue And Registration		Contribution Of Indirect Tax Percent	Contribution Of Derect Tax Percent
		Amount	Percentage Of TR	Amount	Percentage Of TR	Amount	Percentae Of TR	Amount	Percentae Of TR		
1985/86	3659.3	1231.0	33.6	1766.5	48.3	417.5	11.4	244.3	6.7	81.9	18.1
1986/87	4372.4	1505.7	34.4	2098.0	48.0	484.7	11.1	284.0	6.5	82.4	17.6
1987/88	5752.8	2214.6	38.5	2528.0	43.9	643.3	11.2	366.9	6.4	82.4	17.6
1988/89	6287.2	2289.9	36.4	2665.9	42.4	930.4	14.8	401.0	6.4	78.8	21.2
1989/90	7283.9	2684.9	36.9	3163.9	43.3	983.4	13.5	451.7	6.2	80.3	19.7
1990 /91	8176.3	3044.3	37.2	3763.4	46.0	829.7	10.1	540.4	6.6	83.3	16.7
1991/92	9875.6	3358.9	34.0	4921.5	49.8	959.1	9.7	636.1	6.4	84.6	15.4
1992/93	11662.5	3945.0	33.8	5681.3	48.7	1281.3	11.0	754.9	6.5	82.5	17.5
1993/94	15371.4	5255.0	34.2	7261.2	47.2	2022.1	13.2	833.1	5.4	81.4	18.6
1994/95	19660.0	7018.8	35.7	8792.6	44.7	2911.6	14.8	937.7	4.8	80.4	19.6
AAGR Percent	18.3	19.0		17.4		21.4		14.4			

Source : Economic Survey 1996, MOF, HNG/N.

Table 5

Composition Of Internal Commodity Tax On Goods And Services Of HMG/N

NRs. in Million

Year	Total	Sales		Industrial Product		Others*	
		Amount	Percent	Amount	Percent	Amount	Percent
1985/86	1766.5	985.9	55.8	555.4	31.4	225.2	12.7
1986/87	2098.0	1143.8	54.5	675.4	32.2	278.8	13.3
1987/88	2528.0	1300.5	51.4	822.8	32.5	404.7	16.0
1988/89	2665.9	1379.7	51.8	870.9	32.7	415.3	15.6
1989/90	3163.9	1650.1	52.1	1094.9	34.6	418.9	13.3
1990/91	3763.4	2026.1	53.8	1199.6	31.9	537.7	14.3
1991/92	4921.5	2840.1	57.7	1414.1	28.7	667.3	13.6
1992/93	5681.3	3438.2	60.5	1452.4	25.6	790.7	13.9
1993/94	7261.2	4693.1	64.6	1592.2	21.9	975.9	13.4
1994/95	8792.6	6031.7	68.6	1657.3	18.8	1103.6	12.6
AAGR Percent	17.4	19.9		11.6		17.2	

* This Includes Hotel Tax, Air Flight Tax, Contract Tax etc.

Source : Economic Survey 1996, MOF, HMG/N.

Table 6

Composition Of Commodity Tax On Foreign Trade Of HMG/N

NRs. in Million

Year	Total	Imports		Exports		IER	
		Amount	Percent	Amount	Percent	Amount	Percent
1985/86	1231.0	1081.1	87.8	73.3	6.0	75.6	6.2
1986/87	1505.7	1285.3	85.4	79.4	5.3	138.3	9.3
1987/88	2214.6	1984.2	89.6	107.9	4.9	121.3	5.5
1988/89	2289.9	2133.9	93.2	62.7	2.7	91.6	4.1
1989/90	2684.9	2646.0	98.6	32.6	1.2	0.0	0.0
1990/91	3.44.3	2752.6	90.4	78.5	2.6	211.7	7.0
1991/92	3358.9	2795.2	83.2	114.7	3.4	447.4	13.4
1992/93	3945.0	3178.0	80.6	140.7	3.6	623.5	15.9
1993/94	5255.0	4356.0	82.9	427.0	8.1	460.4	8.8
1994/95	7018.1	5840.1	83.2	332.5	4.7	837.5	11.9
AAGR Percent	19.0	18.4		16.3		27.2	

Source : Economic Survey 1996, MOF, HMG/N.

Table 7

Composition Of Tax On Property, Profit And Income Of HMG/N

NRs. in Million

Year	Total	Public Enterprises		Individuals		Others*	
		Amount	Percent	Amount	Percent	Amount	Percent
1985/86	417.5	110.8	26.5	234.5	56.2	72.3	17.3
1986/87	484.7	120.9	24.9	284.3	58.7	79.5	16.4
1987/88	643.3	193.2	30.0	348.6	54.2	101.5	15.8
1988/89	930.4	216.9	23.3	597.4	64.2	116.1	12.5
1989/90	983.4	240.9	24.5	625.0	63.6	117.5	11.9
1990/91	829.7	162.2	19.9	531.2	64.0	136.3	16.4
1991/92	959.1	171.1	17.8	617.9	64.4	170.1	17.7
1992/93	1281.3	255.3	19.9	800.7	62.5	225.3	17.6
1993/94	2022.1	534.1	26.4	1184.8	58.6	303.2	15.0
1994/95	2911.0	860.2	29.5	1293.1	44.4	758.3	26.0
AAGR Percent	21.4	22.7		18.6		26.5	

Source : As of the Tabel 6

Table 8

Foreign Loan, Its Servicing And Net Outstanding Of HMG/N

NRs. in Million

Year	Borrowing		Repayment		Interest Payment		Net Outstanding	
	Amount	Percent of Expe-nditure	Amount	Percent of Expe nditure	Amount	Percent of Expe-nditure	Amount	Percent of GDP
1985/86	1287.5	13.1	160.5	1.6	125.2	1.3	10330.2	19.4
1986/87	2361.9	20.5	250.6	2.2	236.4	2.1	15171.9	24.8
1987/88	4069.9	28.9	297.5	2.1	293.4	2.1	20826.0	28.5
1988/89	5671.4	31.5	388.6	2.2	312.7	1.7	29216.9	34.0
1989/90	5959.6	30.3	701.8	3.6	421.8	2.1	36800.9	36.9
1990/91	7296.7	31.0	589.0	2.5	497.5	2.1	59505.3	51.2
1991/92	7281.8	27.6	942.2	3.6	722.7	2.7	70923.9	48.9
1992/93	6920.9	22.4	1252.9	4.1	879.0	2.8	87420.8	52.9
1993/94	9163.6	27.3	1468.2	4.4	1020.5	3.0	101966.8	53.2
1994/95	7312.2	18.7	1828.2	4.7	1156.5	3.0	113000.9	53.8
AAGR Percent	19.0		27.5		24.9		27.0	

Source : Economic Survey 1996, MOF, HMG/N.

Table 9

Expected And Actual Revenue Collection Of HMG/N

NRs. in Million

Year	Expected		Actual		Difference : Expected minus Actual	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
1985/86	5528.2	-	4644.5	-	883.7	16.0
1986/87	5875.1	6.3	5975.1	28.6	-100.0	-1.7
1987/88	7355.8	25.2	7350.4	23.0	5.0	0.1
1988/89	9300.0	26.4	7776.9	5.8	1523.9	16.4
1989/90	8500.6	-8.6	9287.5	19.4	-786.9	-9.3
1990/91	10128.2	19.1	10729.9	15.5	-601.7	-5.9
1991/92	12557.1	24.0	13512.7	25.9	-955.0	-7.6
1992/93	17001.0	35.4	15148.4	12.1	1852.8	10.9
1993/94	18084.4	6.4	19580.8	29.3	-1496.4	-8.3
1994/95	24991.4	38.2	24575.2	25.5	416.7	1.7
AAGR Percent	16.3		18.1		-7.2	

Source : (a) Economic Survey 1996, MOF, HMG/N.
(b) Budget Speeches (various issues), MOF, HMG/N.

Table 10
Elasticity And Bouyancy Matrix Of Nepal's Tax System

Researchers	Study Period	Elasticity	Buoyancy	Most Elastic Head	Most Buoyant Head
M.K. Dahal	1964/65 to 1981/82	TR=1.01 TXR = 0.92 IT = 1.38 DT = 0.68 IDT = 1.02 LT = -0.04 ST = 1.96	TR = 154 TXR = 1.51 IT = 1.68 DT = 1.23 IDT = 1.62 LT = 0.31 ST = 2.56	Sales tax	Sales tax
G.R. Agrawal	1967/68 to 1975/76	ST = 1.74 LT = 0.12 IT = 2.01 ED = 1.28 CD = 0.86	ST = 2.20 LT = 0.17 IT = 2.18 ED = 2.24 CD = 1.18	Income tax	Excise duties
P.R. Reejal	1964/65 to 1970/71	TXR = 1.82 IT = 4.39 DT = 2.25 IDT = 1.52 LT = 0.77 ST = 0.48	TXR = 2.18 IT = 3.14 DT = 1.89 IDT = 2.30 LT = 1.34 ST = 0.46	Income tax	Income tax
H.D. Pant	1965/66 to 1989/90	TR = 0.59 IT = 0.55 CD = 0.59 ED = 0.75 ST = 0.76 LT = -0.42	TR = 1.28 IT = 1.47 CD = 1.67 ED = 1.29 ST = 1.35 LT = 0.07	Sales tax	Custom duties
IDS	1974/75 to 1984/85	TXR = 0.86 IT = 1.06 DT = 0.67 IDT = 0.93 ST = 1.007 ED = -0.33	TXR = 1.35 IT = 1.49 DT = 1.06 IDT = 1.44 ST = 1.75 ED = 1.43	Income tax	Sales tax
M.K. Nepal	1968/69 to 1992/93	TR = 0.64 TXR = 0.51 IT = 0.48 DT = 0.14 IDT = 0.61 CD = 0.44 NTR = 1.14 ST = 0.57 ED = 0.13 LT = -0.51	TR = 1.21 TXR = 1.16 IT = 1.20 DT = 1.0 IDT = 1.21 CD = 0.67 NTR = 1.42 ST = 0.86 ED = 0.81 LT = -0.06	Non Tax revenue	Non tax revenue

TR = Total Revenue TXR = Tax revenue IT = Income tax DT = Direct tax IDT = Indirect tax LT = Land tax
ST = Sales tax ED = Excise duties CD = Custom duty NTR = Non tax revenue

Source : Nepal 1995

Table 11

Countries Adopting VAT Between 1990/93 And Percentage Rates

Country	Year	Initial Rates	Rates in April 1995
Armenia	1992	28	28
Azerbaizan	1992	28	28
Bangladesh	1991	15	15
Belarus	1992	28	28
Bulgaria	1993	18	18
Canada	1991	7	7
Cyprus	1992	5	5
Czech Republic	1993	5.23	5.23
El Salvador	1992	10	10
Estonia	1992	10	18
Fiji	1992	10	10
Finland	1990	17	17
Georgia	1992	28	14
Iceland	1990	14,24,5	14,24,5
Jamaica	1991	10	10
Kazakastan	1992	28	10,20
Kenya	1990	17,20,40,50,270	5,18,30,50,75
Kyrghystan	1992	28	20
Latvia	1992	10,12,14	6,12
Lithuania	1991	20	18
Mali	1991	10,17	10,17
Moldova	1992	28	20
Pakistan	1990	12.5	12.5
Rusia	1992	28	10,20
Slovakia	1993	5,23	5,23
South Africa	1991	10	14
Tajikistan	1992	28	28
Thailand	1992	7	7
Trinidad & Tobago	1990	15	15
Turkmenistan	1992	28	28
Ukraine	1992	22,28	28
Uzbekistan	1992	30	25

Source : Glenn P. Jenkins *Value Added Taxation, Policies Issues*, International Tax Programmes, Harvard University, 1993.

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