

## Value Added Tax Registration and E-filing Status in Revenue Administration in Nepal

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### Abstract

Nepal has also improved the implementation of VAT since 1998 both legally and administratively due to liberalization. A key problem facing revenue administrations in many developing countries is operating manual paper-based recording systems henceforth e-filing systems address this issue (William & Huang, 2019). This research was designed descriptively and secondary data was used ranging from FY 2065/66 to 2078/79. The number of VAT registrations sharply increased during the study period. The main reason behind to rise in VAT registration is simplifying the VAT procedures, introducing or launching the ICT, and wide coverage of business in VAT and PAN by IRD. To sum up, both VAT and PAN registration numbers were rising during the study period. Similarly, the average VAT and PAN registration numbers were 170334 and 899714 respectively. Both VAT non-filers and income tax non-filers taxpayers were fluctuating during the study period with 27.04% and 48.6% on average. The non-filler taxpayers under VAT and income tax were the highest at 38.46% and 58.36% in FY 2076/77 and FY 2067/68 respectively during the study period. The non-filler VAT and income taxes were still 33% and 45% in the fiscal year 2078/79. The reason behind the rise from 25.10% of VAT non-filler to 2076/77 and last year was that due to COVID-19 international and national cases and lockdowns around all places of Nepal, almost all businesses were closed suffering from COVID-19. Hence, the implementation of the e-filing system needs to be effective and tax-friendly for the taxpayer.

**Keywords:** VAT, PAN, e-filing, non-fillers, ICT

### Introduction

Adopting the economic liberalization policy, Nepal has also improved the implementation of VAT since 1998 legally and administratively. The application of ICT has enhanced the internal efficiency of tax revenue administration in the decision-making process. Today, ICT has been used to modernize the public bureaucracy to make the

service delivery meet the expectations of citizens. Likewise, better service delivery of VAT or revenue administration is demanding digitalization, and service recipients can e-fill by the use of ICT. For the effective VAT in the e-filing system, ICT infrastructure is a key determinant of development in the knowledge era and taxpayers expect online service delivery (IOTA, 2018). Similarly, for effective ICT, human infrastructure (attitudes, knowledge, and skills required to initiate, implement, and sustain e-government initiatives mobilization, leadership, and strategic thinking (Heeks, 2002). Tax or revenue administration automation had a positive effect on the cost of tax administration, automation, and effective revenue collection (Haughton, 2001, 7).

In the recent scenario, IRD has developed the extensive perspective that "taxpayers are the stakeholders and working co-operatively and transparently with the business partners" (IRD Strategy Paper, 2015). Existing filing and registration, e-services are actively promoted and the department plans to expand these services. Technology developments are guided by a 5-year e-governance strategy, and IRD has planned to harmonize ICT platforms and software, upgrade security systems, and establish comprehensive disaster recovery programs. The new system allowed taxpayers to complete tax forms and provide required payment details online (KPMG, 2016).

Hence technological changes and improvements have created new challenges for businesses regarding compliance with VAT laws. This research mainly focused on the VAT registration and e-filing status of VAT in Nepal.

## **Research Issue**

Heeks estimated that out of total e-government projects in developing and transitional countries, 35% were total failures, 50% were partial failures and only 15% succeeded (Heeks, 2003). In 2016, a Dutch parliamentary commission pointed out that the failure of ICT projects in the public sector in the Netherlands was much more common than success, estimated to result in a waste of money of 1-5 billion Euros a year. Web-based services started to be replaced by various new techniques and technologies enabled by digitalization, Big Data, IoT (Internet of Things), and AI (Artificial Intelligence). OECD (2020) digitalization had a wide range of taxation implications, impacting tax policy and tax administration. Tax digitalization was not just converting paper forms into PDFs to upload on a government website. True digitalization has to be

revolutionary, considering not only how taxpayers complete the filings, but what is taxed, and how the authority can leverage powerful data pipelines to complete and audit taxes without filing (Paul, 2019). However, Kudo (2019) pointed out that ICT led to a transformation in work processes and service delivery, lowering transaction costs with improvement in transparency and accountability of service delivery in revenue administration. Even big developing countries like India are still struggling to improve the internet bandwidth per internet user (important for developing competitive cloud computing infrastructure) and the speed and cost of the internet (Banga,2019,34). This research issue prevails; e-filing status of VAT registration of tax administration in Nepal is effective?

## **Objectives**

This research aims to analyze the e-filing status of VAT registration of tax administration in Nepal.

## **Review of Literature**

According to Palmer (2002), electronic tax-filing systems could be evaluated in terms of usability, design, and performance including download delay, site content, interactivity, responsiveness, and user satisfaction. In electronic tax filing systems, users are usually unenthusiastic to pay tax and the site service provider (government) is eager to collect it. The electronic filing process allows the taxpayer to obtain a return from the web portal. An e-filing account is created based on taxpayers registered on the types of taxes. The e-filing system helps reduce user errors in the computation of taxes.

## **E-taxation**

Heeks (2001) pointed out three main contributions of e-governance--improving government processes (e-administration), connecting service recipients (e-services), and building external interaction (e-society). UN (2007) stated that e-taxation was a process where tax documents or tax returns are submitted via the Internet. Dowe (2008) tax authorities around the world were using electronic tax administration systems to interact with taxpaying service recipients in tax collection, administration, and compliance settings to improve effectiveness in tax administration. MOFAG (2018) also pointed out

that governments could use the ICT to collect and manage taxpayer data, develop sophisticated data-tracking systems to detect underpayments, fraud, and corruption as well as develop incentives to encourage compliance. Lack of resources, unsupportive policies, inadequate technical and human infrastructure, high ICT costs, poverty, and illiteracy were the fears of adopting ICT (ESRF, 2008, ITU, 2007, UN, 2008). However, leapfrogging opportunities still exist in developing countries (Ensley, 2005) including Nepal intelligently exploit ICT for development e-administration or e-filing VAT (E-VAT). UN (2015) also found that to ensure greater accountability, transparency, and integrity, taxpayer compliance is the major challenge in VAT administration in Nepal. Lack of infrastructure, illiteracy, and political instability are the major problems faced by Nepal in VAT administration. Nepal's implementation of e-governance has not been largely successful (Dhakal & Jamil, 2010). In developing countries, like Nepal, e-filing of income tax has been implemented effectively since 2007 and E-VAT by using ICT since 2010. In the Nepalese context, E-VAT is the major source of revenue for the development economy. ICT infrastructure of IRD in terms of automation, e-governance, e-services, and e-based monitoring and evaluation systems were found to be effective in influencing the e-filing behavior of taxpayers. Thus, the major e-services under income tax are income tax return, PAN, VAT submission, and self-verification that seek requests for time extension of e-filing period and E-TDS as stated the return submission, registration application, and upload of necessary documents.

### **Research Methodology**

This research is designed mainly in a descriptive manner. However inferential correlation and analysis are also conducted under this study. Under descriptive research, the researcher tries to describe and interpret things, such as the condition of a thing or relationship as stated variables. Technology Acceptance Model (TAM), different annual reports of IRD, UN, OECD, ITU, and related scholarly research articles are used to conceptualize the research. This study is based on mainly secondary data which is collected from the IRD annual report from 2065/66 to 2078/79, ICT plan and policies, various reports published by the Ministry of Finance, IRD strategic plan, different scholarly research journals, reports, website of IRD, 5 Years Strategic Plan and 3 Years Reform Plan of IRD 2012/2019. Percentage, mean, correlation, and regression ANOVA

tests have been used for analyzing the data. References are incorporated in APA 7th ed.

## Result and Analysis

### 4.1 Number of VAT and business PAN registration

**Table 1**

*Number of VAT and Business PAN Registration*

<b>FY</b>	<b>VAT registration (number)</b>	<b>PAN registration (number business)</b>
2065/66	69708	356855
2066/67	82684	407471
2067/68	97731	463378
2068/69	113919	539014
2069/70	129713	623439
2070/71	133178	685958
2071/72	153850	765605
2072/73	167530	849236
2073/74	175951	934658
2074/75	203928	1036246
2075/76	240460	1235412
2076/77	255963	1358934
2077/78	268436	1577383
2078/79	291631	1762413
Average	170334	899714
Max	291631	1762413
Min	69708	356855

Source: Annual report of IRD, 2071, 2077, 2078, & 2079

The number of VAT registrations was 69708 initially in FY 2065/66 whereas PAN registration was 356855 in the same year. It shows that the PAN registration is sharply higher than VAT registration. However, the number of VAT registrations was

sharply increasing during the study period and reached 291631 in FY 2078/79. The main reason behind to rise in VAT registration is simplifying the VAT procedures, introducing or launching the ICT, and wide coverage of business in VAT and PAN by IRD.

Similarly, PAN registration seems to have sharply increased during the study period and reached 1762413 in FY 2078/79. To sum up, both VAT and PAN registration numbers are rising during the study period. Similarly, the average VAT and PAN registration numbers are 170334 and 899714 respectively.

#### 4.2 Non-filers (Non-E-fillers) status of IRD

**Table 2**

*Non-filers (Non-E-fillers) Status of IRD*

FY	Non-filer VAT (%)	Non-filer Income tax (%)
2065/66	19	55.51
2066/67	27	57.93
2067/68	21.25	58.36
2068/69	22.3	55.59
2069/70	21.5	55.5
2070/71	30.98	39.51
2071/72	25	38
2072/73	30.29	38
2073/74	23	44
2074/75	23.68	46
2075/76	25.1	48
2076/77	38.46	50
2077/78	38.05	49
2078/79	33.0	45
Average	27.04	48.6
Max	38.46	58.36
Min	19	38

Source: Annual report of IRD 2065/66-2078/79

VAT non-filer taxpayers are fluctuating during the study period and 27.04% are on average. Similarly, income tax non-filer taxpayers are also fluctuated and 48.6% on

average during the study period. The non-filler taxpayers under VAT and income tax are the highest at 38.46% and 58.36% in FY 2076/77 and FY 2067/68 respectively during the study period. The non-filler taxpayer for VAT and income tax is volatile during the study period.

IRD also trained employees in national and international contexts. In FY 2070/71, 89 tax officers in which 46 model 1 and 43 model R in the international Financial Reporting Standard (IFRS). Similarly, 799 numbers of taxpayer's education and awareness programs are conducted by IRD (IRD, 2079). From FY 2073/74, VAT non-filler target to 10% by IRD (IRD, 2077). VAT non-filler of large taxpayer office IRO Kathmandu area no. 1, 2, 3 is less than 1% and other IROs planned to reduce at single digit, working procedure plan accordingly (IRD, 2076). The non-filler VAT and income tax are still 33% and 45% in the fiscal year 2078/79. The reason behind raising from 25.10% of VAT non-filler to 2076/77 and last year is that due to COVID-19 international and national cases and lockdown around all places of Nepal and almost all business are closed and also suffered from COVID-19 personally. Henceforth service recipients could not submit the files in a timely manner. Another reason is the government of Nepal also extended the tax payment schedule up to Bhadra, 2077. In FY 2070/71 income tax non-fillers and fillers, portion is 39.51% and 60.49% in which the portion of income tax return is 37% D03 and 63% D01 (IRD, 2071). For prompt service delivery, ICT applied in tax administration is an international norm and value. Service recipients' (taxpayers') friendliness and quality service delivery, unified tax system, and widen and sustainable tax policy and system led to enhanced effective tax administration. The use of ICT in tax administration also helps to audit and review the cases faster and transparently.

### 4.3 Composition of VAT

**Table 3**

*Internal Vs. Import VAT Collection*

<b>FY</b>	<b>VAT (Internal Rs. Billion)</b>	<b>VAT import (Rs. Billion)</b>	<b>Total (Rs. Billion)</b>	<b>Internal/Import ratio (:)</b>
2065/66	13.92	25.78	39.7	35:65
2066/67	19.10	34.54	53.64	36:64
2067/68	22.39	39.31	61.7	36:64
2068/69	25.64	46.54	72.18	36:64



<b>FY</b>	<b>VAT (Internal Rs. Billion)</b>	<b>VAT import (Rs. Billion)</b>	<b>Total (Rs. Billion)</b>	<b>Internal/Import ratio (:)</b>
2069/70	28.49	55.01	83.5	34:66
2070/71	34.4	66.57	100.97	34:66
2071/72	39.55	78.94	118.49	33:67
2072/73	49.82	77.94	127.75	39:61
2073/74	61.12	105.34	166.46	37:63
2074/75	76.22	130.64	206.86	37:63
2075/76	88.19	153.71	241.9	36:64
2076/77	98.14	129.4	227.54	43:57
2077/78	116.43	170.63	287.06	41:59
2078/79	115.86	198.44	314.30	37:63
<b>Average</b>	56.37	93.77	150.14	
<b>Max</b>	116.43	198.44	314.3	
<b>Min</b>	13.92	25.78	39.70	

Source: Annual report of IRD, 2077, 2078, & 2079

The internal VAT collection of IRD ranges from Rs. 13.92 billion to Rs.115.86 billion corresponding year 2065/66 to 2078/79. The internal VAT collection is increasing during the study period. From the FY 2071/72, internal VAT collection is raised sharply till the last year 2077/78. Similarly, VAT import of IRD ranges between Rs.25.78 billion to Rs.198.44 billion with the corresponding year 2064/65 to 2078/79 respectively. The import of VAT has sharply increased from FY 2070/71 onwards. Internal to import ratio of VAT is the highest at 43: 57 in FY 2076/77. By analyzing the internal-to-import VAT ratio, the internal VAT portion is slightly rising but not sufficient, and the majority of VAT is collected from imports which is not balance for the economy. In the last year 2078/79, the internal-to-import VAT ratio was 37: 63. It implies that 63% portion of VAT is collected from the import of goods and services and the rest 37% of VAT is received from internal goods and services or business. The result shows that a major portion of VAT is collected from the import of goods and services which is not good for the country. Lastly, the average VAT internal, VAT import, and total VAT are Rs.56.37 billion, Rs. 93.77 billion, and Rs.150.14 billion respectively.



### Conclusion

VAT non-filers taxpayers are fluctuating during the study period and 27.04% are on average whereas income tax non-filers are 48.6% during the study period. The non-filler VAT and income tax are still 33% and 45% in the fiscal year 2078/79. IRD modernized the tax system, ICT-based service delivery towards taxpayer friendliness in the tax system or administration, implementing integrated tax system regarding VAT. ICT application in tax administration reflects that management or assessment of both VAT and income tax is growing.

### Further Outlook

IRD should not delay giving e-tax filling training to taxpayer's service recipients as a campaign for the easy adaptation of technology or familiarity with the technology. Similarly, the Government of Nepal (GON) also makes policies to cut off or reduce the cost of telecommunication and broadband internet because of the easiness of e-filing.

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