

Inland Revenue Management Second Strategic Plan 2018/19- 2022/23



**Government of Nepal
Ministry of Finance
Inland Revenue Department
Lazimpat, Kathmandu**



Government of Nepal
MINISTRY OF FINANCE

Dr. Yuba Raj Khatiwada
Finance Minister

SINGHADURBAR
KATHMANDU, NEPAL

November 17, 2018

Message

Government of Nepal has initiated tax policy reforms through the current fiscal year budget to make the countries' tax system more progressive, equitable and transparent. The objective is to mobilize more domestic revenue to promote public investment in order to achieve high economic growth, create more employment and increase welfare of the people. For this, the government remains firmly committed to make tax policies, laws, institutions and structure investment friendly so as to onboard private sector for higher capital mobilization to boost economic growth.

The Strategic Plan of the Inland Revenue Department has been prepared to meet the broader development objective of the government through strong and efficient tax system. In this connection, I am pleased to note that the First Strategic Plan was successful to achieve the key targets. This Strategic Plan for the next five years (2018/19-22/23) is expected to expedite the tax reform process appropriately and effectively. Reforming tax policy, enhancing taxpayer service, promoting voluntary tax compliance and initiating information based enforcement mechanism are the key pillars and intervention areas proposed in this plan so as to create a sound and efficient revenue system in the country.

With the implementation of this Strategic Plan, I am confident that the tax base will be expanded substantially while controlling leakages and administrative hurdles. The Plan also expects that tax system becomes more transparent and investment friendly and taxpayers are expected to get better service delivery with digitalization of the system and simplification of the process. After all, the reform process will help to generate more revenue to support the growing investment demand of the government along with promoting industrial and business investment.

Finally, I extend my best wishes for the successful implementation of this Strategic Plan effectively with the support of all the stakeholders.

Thank you.

Dr. Yuba Raj Khatiwada
Finance Minister



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Message

SINGHADURBAR
KATHMANDU, NEPAL

I am delighted that the Inland Revenue Department has revealed its Second Strategic Plan for the upcoming five years on the basis and implementation feedback of the First Strategic Plan with national commitment.

The government wants to bring all the economic activities into the tax net to broaden the revenue base. At the same time, it is equally indispensable to build investment friendly tax system in order to enhance production and employment generation. Apart from that, it is also a key requirement to assemble the tax rate and structure more progressive and equitable. Therefore, I am confident that the actions indicated by the strategic plan will be able to pursue those objectives of the government.

The actions of the inland revenue mobilization should be more focused on the policy reform along with creating conducive tax environment for fostering growth, taxpayer education and empowerment through digital taxpayer service mechanism, a sophisticated deterrence mechanism for non compliance and institutional reform with skilled manpower and technological advancement. I have found this strategic plan has entirely articulated its action towards those policy direction.

At this moment, I would like to draw the attention of tax family to concentrate all the activities to successfully replicate this strategic plan into action. I wish that this strategic plan will be able to fulfilled the aim to build a sound, fair and progressive tax system. I also wish Department success to realize the expected results as this plan has stipulated.

Sishir Kumar Dhungana
Secretary (Revenue)



Government of Nepal
Ministry of Finance

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It is a great pleasure to launch the Inland Revenue Department (IRD)'s second Strategic Plan (SP) for five year (FY 2018/19 to 2022/23) after implementing its first five years SP in pursuit of making the tax system efficient and robust. The objectives and activities of this strategic plan are based on the lessons learned from the first SP and the current tax issues to mobilize the domestic revenue in a better way for upcoming days. It is a dynamic process to build a tax system more efficient, impartial and fair. Indeed, tax system must be investment and taxpayers friendly to promote economic growth. Broadening the tax base and rationalizing the rates are core thrust of the tax policy in making the economy more competitive. With the implementation of the SP, the IRD will be able to reduce compliance costs of taxpayers and administrative costs of the government. The IRD will formulate reform plan and annual business plan to materialize this SP.

In coherence with the national vision: "Prosperous Nepal, Happy Nepali", the IRD has also envisioned to make it an efficient institution to support in the process through the development of broad-based, transparent, and fair tax system. I am confident that IRD will be able to implement this SP to achieve its mission and objectives. I anticipate the needed supports from all the stakeholders for the successful execution of this SP.

Bishnu Prasad Nepal,
Director General

Inland Revenue Management

Second Strategic Plan (2018/19-2022/23)

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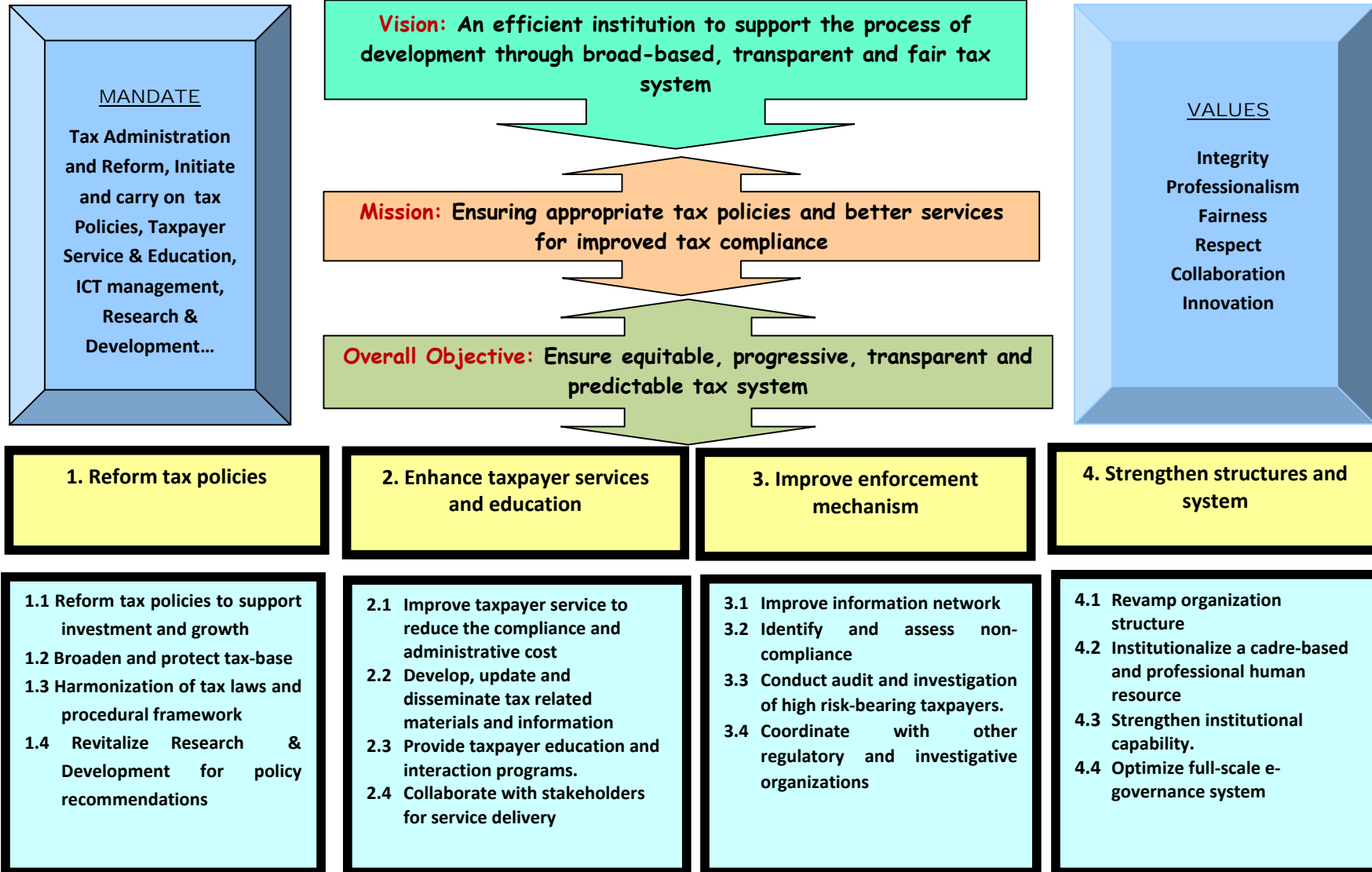
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ACRONYMS AND ABBREVIATIONS

ABP	Annual Business Plan
ADB	Asian Development Bank
DO	Development Objective
DP	Development Partner
Etc.	Etcetera
FCGO	Financial Comptroller General Office
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	German International Cooperation
GoN	Government of Nepal
HR	Human Resources
HRD	Human Resource Development
HRMP	Human Resource Management Plan
ICT	Information and Communication Technology
IMF	International Monetary Fund
IRD	Inland Revenue Department
IRO	Inland Revenue Office
LTO	Large Taxpayer Office
MoF	Ministry of Finance
NASC	Nepal Administrative Staff College
NPC	National Planning Commission
NPR	Nepali Rupee
OECD	Organization for Economic Cooperation and Development
O&M	Organization and Management
PAN	Permanent Account Number
PSC	Public Service Commission
RAS	Revenue Administration Support (Project)
R & D	Research and Development
SARA	Semi-Autonomous Revenue Authority
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprise
SO	Strategic Objective
SP	Strategic Planning
TSO	Taxpayer Service Office
VAT	Value Added Tax

Strategic Plan – Framework



Overview of the Strategic Plan

Vision	An efficient institution to support the process of development through broad-based, transparent and fair tax system
Mission	Ensuring appropriate tax policies and better services for improved tax compliance
Guiding Principles	<ul style="list-style-type: none"> • Create investment and productive sector friendly tax system • Make tax system more progressive and equitable • Ensure efficient, professional and fair tax administration • Broaden tax base and control revenue evasion
Value	
Integrity	IRD fosters public confidence in the tax administration with a strong work ethics, integrity, diligence, and accountability
Professionalism	IRD develops professionalism in employees' decision-making and behavior
Fairness	IRD is committed to provide a fair, impartial, swift services to the taxpayer
Respect	IRD respects the rights and contribution of taxpayers
Collaboration	IRD promotes cooperation, coordination, and partnership with stakeholders
Innovation	IRD strives for continuous reform, research & development of the tax system
Mandate	<ul style="list-style-type: none"> • Tax Administration and Reform, • Initiating and carrying on tax Policies, • Taxpayer Service & Education, • Information and Communication Technology (ICT) management, • Research & Development
Overall Objectives	Ensure equitable, progressive, transparent and predictable tax system
Objectives	<ol style="list-style-type: none"> 1. Reform tax policies 2. Enhance taxpayer services and education 3. Improve enforcement mechanism 4. Strengthen structures and system

1. INTRODUCTION

1.1 Country Context

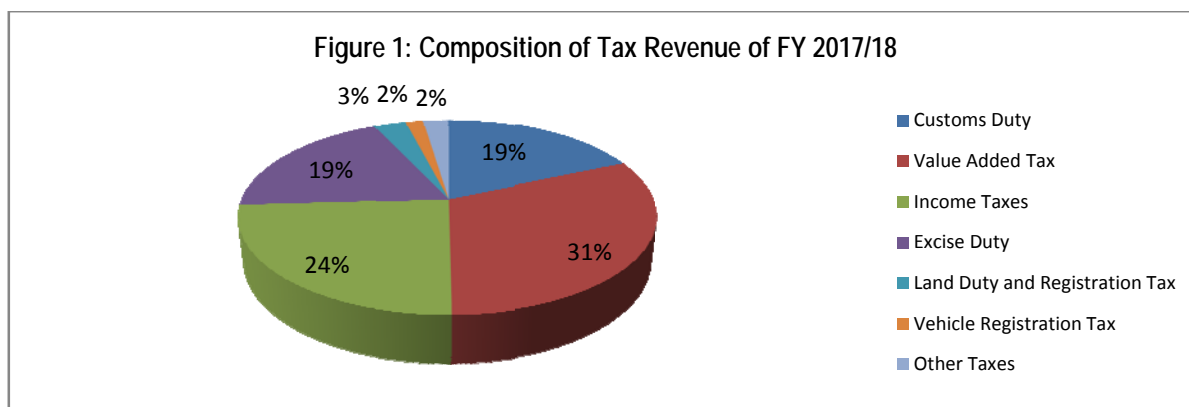
Nepal has undergone a historical political transformation, with the recent past marked by key milestones such as the promulgation of a new constitution in 2015 and the successful completion of elections at all three tiers of the government viz. local, provincial and federal. As per the new constitution, there are 7 provinces and 753 local government bodies including 6 Metropolitan cities, 11 Sub-Metropolitan cities, 276 Municipalities and 460 Rural Municipalities.

About 21.6 percent of the total population is living below the poverty line in Nepal. Around two-thirds of the people are engaged in agriculture that contributes 27.6 percent to the Gross Domestic Product (GDP). The contribution of the manufacturing sector to GDP has visibly remained low signifying limited employment opportunities which in turn has narrowed the tax base. The contribution of the service sector to GDP has been increasing which could be instrumental in enhancing the tax base. Remittances have played a role in poverty reduction and increase in gross disposable income creating an upward pressure to imports. The downside of increase in the import-based revenue has been huge trade deficit.

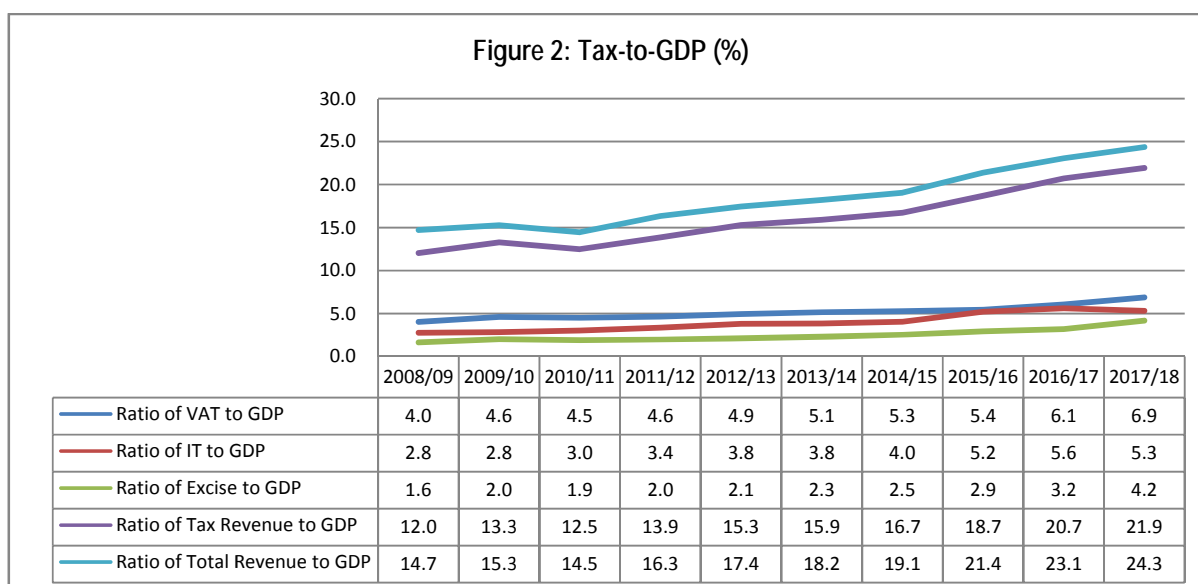
The demand side of the public spending has grown considerably owing to the expenses required for the fulfillment of constitutional commitments and operation of the new federal system. Given the increasing saving-investment gap and fiscal gaps, the Government of Nepal (GoN) intends to increase domestic and foreign direct investments and domestic revenue bases. There had been increase in revenue generating economic activities in 2017 and are expected to expand further due to enhanced private and public investment. Foreign Direct Investment and private sector lending from commercial banks have been increasing which has supported in widening of the tax base. The Government of Nepal (GoN) roadmap on Sustainable Development Goals (SDGs) aims to increase revenue-to-GDP ratio to 30 percent by 2030 by implementing taxpayer and investment friendly tax policies to attract private sector investment.

1.2 Overall Revenue Structure in Nepal

The GoN generates revenue from tax and non-tax sources. The Constitution of Nepal has mandated to collect Value Added Tax (VAT), corporate income tax (CIT), personal income tax (PIT), customs and excise duties, among others. Several tax instruments including property tax, land related taxes and service fees are devolved to the provincial and local governments. The overall revenue structure is mainly based on the share of tax revenue. In FY 2017/18, total tax collection was Rs 732.22 billion, which is 90 percent of total revenue and indirect taxes like VAT, customs and excise duties comprise 69 percent of the total tax revenue. Likewise, direct taxes like income taxes and property related taxes account for approximately 31 percent of the total tax revenue. (figure 1)



Non-tax revenue is generated in the form of income from government property, sale of government goods and services, penalties, fines and forfeitures. The non-tax revenue occupies around 10 percent of the total revenue.



Despite the challenging economic conditions and a transitional political context, GoN has been demonstrating its competency in sustaining noticeable growth in revenue collection. The total revenue-to-GDP ratio has been increasing over the decade and reached 24.3 percent in FY 2017/18 (Figure 2). The tax-to-GDP ratio has been increased over the years and has reached 21.9 percent in FY 2017/18.

1.3 Inland Revenue Department (IRD)

The IRD is entrusted with the responsibility of collecting PIT, CIT, VAT, excise duty; and education service fee. To carry out these tasks, the IRD and its subordinate offices register taxpayers; educate and support taxpayers to enable them to comply with tax laws, collect tax returns and taxes, identify non-compliance and assess revenue risks, undertake audit and investigation to deter non compliance, manage tax organizations and staffs, introduce and maintain Information and Communication Technology (ICT), manage and carry-out research and development

activities and initiate policy formulation and reforms. Enhancing tax growth remains the core objective of IRD with focus on the utilization of innovative practices to deliver efficient and better services to taxpayers. IRD has also been focusing on the modernization process of tax system initiated through skills enhancement of the staff and investment in infrastructure.

IRD and its subordinate offices are function-based under which taxpayer service, collection, audit and investigation sections are organized. The IRD comprises of one Large Taxpayer Office (LTO), one Medium- Level Taxpayer Office (MLTO), 38 Inland Revenue Offices (IROs), and 19 Taxpayer Service Offices (TSOs). At present, there are 1429 positions.

1.4 Compliance Status of IRD

The IRD is an implementing agency for taxes. It implements tax policies promulgated by the government. Table 1 depicts the total annual target and collection of revenue of last seven years.

Table 1: Revenue Performance

Description	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total Target (Rs in bn)	95.70	118.65	137.76	157.50	194.67	233.60	299.91
Total Collection (Rs in bn)	98.15	117.91	140.61	160.15	204.48	258.51	298.73
Achievement (%)	102.56	99.38	102.07	101.68	105.04	110.66	99.61
Collection Growth Rate (%)		18.29	17.56	12.99	24.32	23.34	14.44

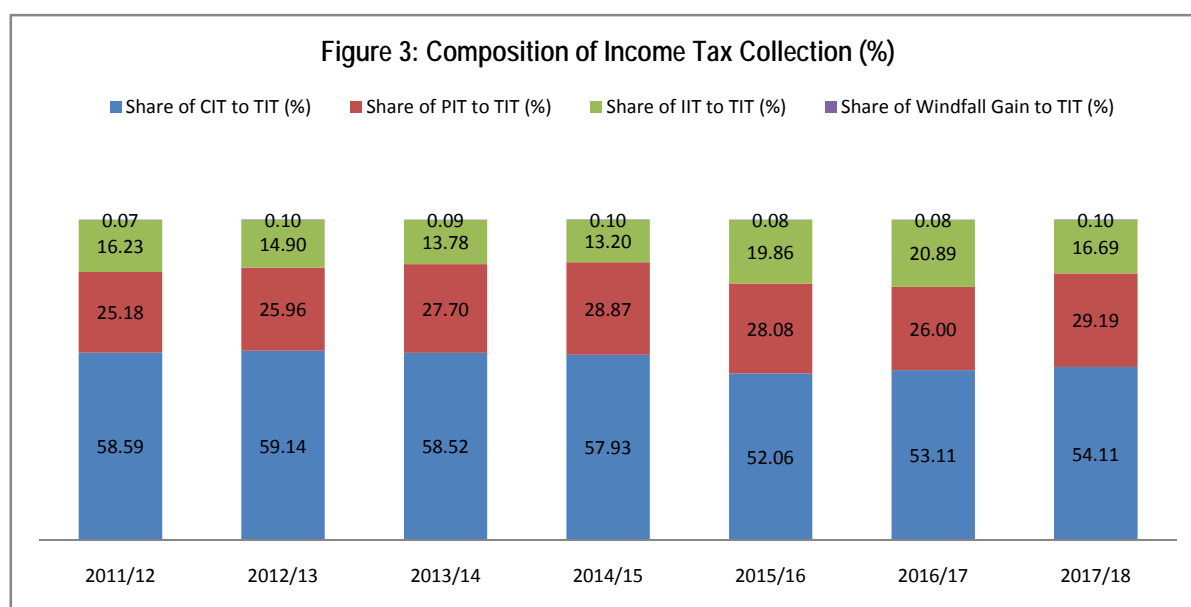


Figure 3 shows that the share of CIT has marginally decreased from 58.59 percent in FY 2011/12 to 54.11 percent in FY 2017/18 where as share of PIT has increased from 25.18 percent to 29.19 percent for the same period. The share of investment income and windfall income tax was stagnant during the review period.

VAT on imported items is collected by the customs offices on imports. IRD deals with taxpayers and collects VAT on domestic products. Imports has been instrumental to increase VAT base.

Table 2 : VAT Collection

Description	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Import-based VAT (Rs in bn)	46.54	55.02	66.82	72.98	72.89	99.2	130.64
Domestic Supply based VAT (Rs in bn)	25.65	28.38	34.29	39.54	49.52	61.12	76.16
Total VAT (Rs in bn)	72.19	83.4	101.11	112.52	122.41	160.32	206.8
Share of Import-based VAT (%)	64.5	66.0	66.1	64.9	59.5	61.9	63.2
Share of Domestic Supply-based VAT (%)	35.5	34.0	33.9	35.1	40.5	38.1	36.8

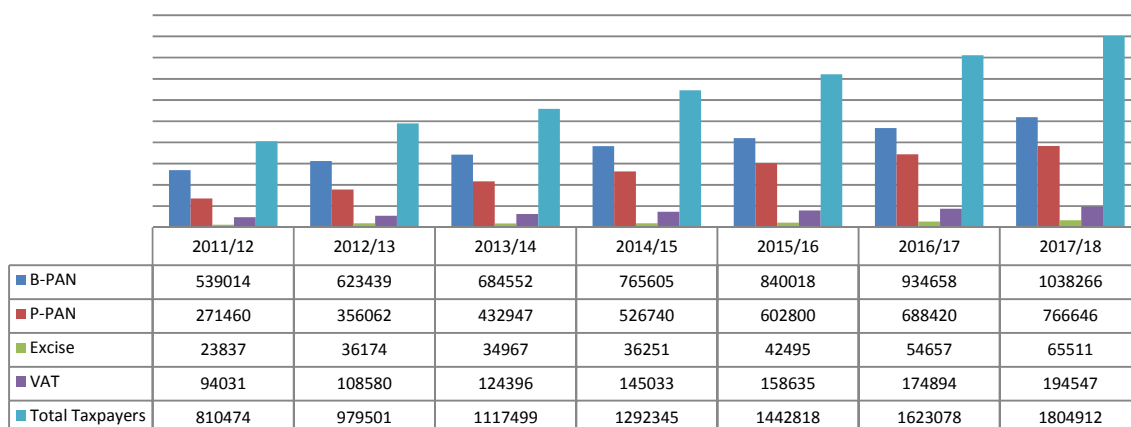
Table 2 shows that the total VAT collection in FY 2017/18 was Rs 206.8 billion. The share of imports related VAT was 63.2 percent and domestic product related VAT was 36.8 percent.

Excise duty is collected by both Customs Department and IRD. The customs offices collect excise duty from the imported excisable commodities while tax offices collect excise from the producers of excisable products.

Figure 4: Product-Wise Excise Duty in FY 2017/18



Total excise duty collection was Rs. 60.49 billion in FY 2017/18. Figure 4 shows that the excise from tobacco products constitutes 23 percent, liquor constitutes 38 percent, beer constitutes 26 percent and other industrial products constitute 13 percent of the total excise duty.



As indicated in Figure 5, the total number of taxpayers was 1.8 million in 2017/18, which is around 6 percent of total population of that year. Of the total taxpayers, 1.03 million were business PAN and 0.76 million were personal PAN. Total number of VAT taxpayers were 0.19 million in 2017/18. Given the size of population and economy, it is visible that there is a plenty of opportunity to expand the number of taxpayers.

Around 30 percent of VAT registrants and 40 percent of business taxpayers are non-filers. The total outstanding tax stood at Rs 146.21 billion in FY 2017/18, of which outstanding VAT was Rs 23.78 billion and outstanding income tax was Rs 122.43 billion.

2. REVIEW OF THE FIRST STRATEGIC PLAN (2012/13 - 2016/17)

In order to enhance the efficiency and effectiveness of the tax system and to improve service delivery to taxpayers, the IRD implemented the first five-year Strategic Plan (SP) for FY 2012/13 to 2016/17. In line with the SP, IRD developed the first three-year Reform Plan (RP) for FY 2012/13 to 2014/15 and second RP for FY 2015/16 to 2017/18.

In early 2018, IRD commissioned a review of its first SP by an independent evaluation team which reviewed the vision, mission and core values of IRD along with the performance review of the First SP as presented below:

Table: 3 Key Performance Indicators under first SP

SN	Particulars	Base Year 2010/2011	Target of SP	Performance in 2016/17	Achievement % compared with	
					SP (%)	Base Year
1	Tax Revenue-GDP Ratio %	16.10	18.00	21.06	117.0	130.8
2	Income Tax-GDP Ratio %	3.10	5.46	5.70	104.4	183.9
3	VAT -GDP Ratio %	4.58	5.64	6.17	109.4	134.7
4	Excise -GDP Ratio %	1.96	3.17	3.26	102.8	166.3
5	Number of Taxpayer Audit Selection %	1.30	2.00	1.25	62.5	96.2
6	Online registration %	96.80	100.00	100.00	100.0	103.3
7	E -Filing %	87.00	100.00	100.00	100.0	114.9
8	VAT Non-filer %	21.33	10.00	30.00	33.3	71.1
9	Income Tax Non-filer %	58.36	40.00	44.00	90.9	132.6
10	Decrease in compliance cost %	9,328.00	50.00	NA	NA	NA

Table 3 reveals that the target revenue collection has been successfully achieved. The tax revenue-to- GDP ratio reached 21.06 percent against the target ratio of 18 percent. Moreover, the income tax-to-GDP ratio, VAT-to-GDP ratio, and excise-to-GDP ratio are also higher than the targets. On the service delivery front, the IRD has achieved remarkable success. The online registration and e-filing systems have been successfully implemented. However, the

filing compliance of taxpayers has not improved in accordance with the target. The IRD had planned to conduct tax audit of at least 2 percent of its taxpayers, but audited only 1.25 percent of the taxpayers.

3. RATIONALE FOR the SECOND STRATEGIC PLAN (SP)

The Fourteenth Plan (2016/17 - 2018/19) envisions achieving prosperity of Nepal by building an independent, thriving, and socialism-oriented national economy. The Plan aims at increasing economic growth by augmenting investment through public sector on various socio-economic arena. Nepal is signatory to agenda 2030 for sustainable development is committed to implement the SDGs through plans and budget of all the three layers of the government. The targets for 17 SDGs, the means of implementation, expected adherence by all stakeholders, resource mobilization and capacity development for shared responsibility and accountability have all been clearly stated in the national plan.

The second SP has been formulated by embracing development policies adopted by the national plan and the development guidelines provided by the Constitution-2015. It also takes into consideration the SDGs and learning from implementation of First SP.

Nepal's progress in revenue mobilization is impressive, but it is also vulnerable to large fluctuations in inward remittances which boost revenue. Enhancing mobilization of internal sources is imperative to meet public expenditure for development programs, administrative expenses to strengthen the federal fiscal system and to reduce dependence on foreign aid.

The four key areas of reform of IRD for the next five years, which would be prioritized in terms of focus and strategic directions, are given as follows:

1. Enhance domestic revenue mobilization by improving voluntary compliance
2. Improve efficiency and effectiveness of tax processes through digitization
3. Develop human and institutional capacity
4. Improve taxpayers satisfaction, public perception, service delivery and information sharing with key stakeholders including international actors

4. STRATEGIC DIRECTIONS

Focus of the second Strategic Plan (2018/19 – 2022/23):

In view of the evaluation of the first SP, changing context and O&M exercise at IRD, the Second SP (2018/19 – 2022/23) has focused on ensuring appropriate tax policies and better services for improved voluntary tax compliance, effective enforcement and digitization with the following development objectives:

4.1 Vision, Mission, and Overall Objective

Vision: An efficient institution to support the process of development through broad-based, transparent and fair tax system
Mission: Ensuring appropriate tax policies and better services for improved tax compliance.
Overall Objective: Ensure equitable, progressive, transparent and predictable tax system

Objective 1: Reform Tax Policies

Strategy 1.1: Reform tax policies to support investment and growth

Actions

- Review and revise tax incentives, tax exemptions, and tax rebate policies
- Introduce a system of recording and reporting tax expenditures
- Keep income tax rates internationally competitive
- Standardize tax provisions in line with international practice
- Respond promptly in tax dispute matters and issue advance ruling if required
- Revise and devise e-Taxation Master Plan
- Conclude DTA and be a member of the multilateral tax framework to attract FDI

Strategy 1.2: Broaden and protect tax base

Actions

- Collaborate with other government and non-government organizations to bring taxpayers into the tax net
- Formulate issue-based guidelines and operational manuals
- Devise Information and Communication Technology (ICT) policy
- Introduce e-commerce and virtual transaction taxation policies
- Collaborate with national and international tax related organizations to devise policies and infrastructure to share economic and financial data

Strategy 1.3: Harmonization of tax laws and procedural framework

Actions

- Amend incoherent provisions and procedures of various tax laws for taxpayer registration, returns, tax collection, tax assessment, disputes settlement, arrear collection, and deregistration
- Integrate operating procedures of income tax, excise, and VAT in Integrated Tax System (ITS)

- Introduce Single Tax Code to make uniform and simple tax system
- Conduct an extensive public consultation process on Single Tax Code in order to seek inputs from stakeholders and public at large
- Coordinate and harmonize with provincial and local level government for taxpayer registration and taxation policy

Strategy 1.4: Revitalize Research & Development for policy recommendations

Actions

- Develop a revenue intelligence mechanism and analyze tax gap and revenue potentials
- Analyze sectoral policies intermittently for policy reform
- Strengthen the monitoring and evaluation system for policy feedback
- Review and reform existing tax policies to deal with different compliance risks

Expected Results

- e-Taxation Master Plan will be revised and implemented
- Issue-based Operating Manuals will be devised
- ICT Policy will be devised
- e-Commerce Taxation Policy will be devised
- Single Tax Code will be devised

Objective 2: Enhance Taxpayer Service and Education

Strategy 2.1: Improve taxpayer service to reduce the compliance and administrative cost

Actions

- Enhance existing ITS to provide income tax, excise, and VAT related services to the taxpayers through e-based system
- Strengthen and develop different options and tools for e-payment
- Provide taxpayer access to an Integrated Tax System to look at the status of their tax accounts
- Introduce an online refund system for regular exporters

Strategy 2.2: Develop, update and disseminate tax related materials and information

Actions

- Develop, update, and disseminate laws, manuals, and tax related brochures, leaflets and pamphlets.
- Create tax awareness through print and digital media
- Publish tax bulletin and share it on the Department's website for public dissemination
- Upload and update law, manuals, directives, notices, and important information in the Department's website
- Develop a dedicated digital Taxpayer Forum to ensure two-way communication with stakeholders
- Strengthen call centers with resources.

- Use social networking platforms such as Twitter and Facebook
- Carry out "Taxpayers Satisfaction Survey" and "Cost of Compliance Survey" intermittently

Strategy 2.3: Provide taxpayer education and interaction programs

Actions

- Develop a uniform and standard teaching material for taxpayer education
- Organize orientation sessions regularly for new taxpayers in each IROs and TSOs
- Celebrate national tax week jointly with taxpayers to disseminate the information

Strategy 2.4: Collaborate with stakeholders for service delivery

Actions

- Outsource some taxpayer education program
- Organize joint tax awareness and education programs with other private sector agencies
- Organize mobile services at remote areas in collaboration with the private and non-government sector.

Expected Results

- e-based Service delivery mechanism will be in place
- e-Payment System will be institutionalized
- Virtual communication will be developed
- Tax related information will be disseminated
- Some taxpayer education and interaction programs will be outsourced

Objecgtive 3: Improve enforcement mechanism

Strategy 3.1: Improve information network

Actions

- Develop and integrate existing registration, e-RT, e-Payment, e-TDS systems
- Expedite the integration of taxpayers' information from existing income tax, VAT and excise systems
- Reform related laws and procedures to make compulsory use of PAN for all financial transaction
- Revise and devise Management Information System (MIS) reporting formats

Strategy 3.2: Identify and assess non-compliance

Actions

- Review the existing tax returns filing system and develop a new detailed offline data entry system for the taxpayers to prepare tax returns
- Review the existing risk indicators intermittently to identify and assess the revenue risks
- Improve risk assessment software, 'Risk Engine', to identify the magnitude of revenue risks

- Enhance and develop different strategies and tools to deal with non-compliance

Strategy 3.3: Conduct audit and investigations of high risk-bearing taxpayers

Actions

- Review and revise the modus operandi of audit and investigation
- Identify and discriminate tax avoidance and tax evasion in enforcing laws effectively
- Determine methods and tools for audit and investigation based on the magnitude of revenue risks
- Outsource the tax consultant particularly for complex tax matters
- Review and monitor audited files based on risks based parameters
- Upgrade and integrate tax assessment system in ITS

Strategy 3.4: Coordinate with other regulatory and investigative organizations

Actions

- Develop virtual linkages with other government organizations to share economic and financial information of taxpayers for taxation
- Develop a joint forum of key government agencies working in regulatory and investigation in order to devise joint strategy to deal with tax avoidance and evasion
- Join international forums and organizations to share information related to tax frauds

Expected Results

- Taxpayers' information will be integrated from internal and external sources
- Risk indicators will be revised
- Integrated system of tax assessment will be developed
- Collaborating mechanism with other regulatory and investigative organization will be in place.

Objective 4. Strengthen structures and system

Strategy 4.1: Revamp Organization Structure

Actions

- Review and restructure IRD and subordinate offices focusing on service delivery and law enforcement needs
- Reform the organization structure and operating system to increase accessibility of taxpayers
- Reengineer the work process in line with e-based service delivery and governance
- Increase the number of technical and professional staffs especially of Computer Engineers, Chartered Accountants, Chemist, Statistician, lawyers
- Outsource fringe services

Strategy 4.2: Institutionalize a cadre-based and professional human resource.

Actions

- Determine and apply entry level qualification for officers with the support of MoF and Public Service Commission
- Coordinate with Public Finance Management Training Centre (PFMTC) for comprehensive induction and in-service training including periodic and refresher training
- Carry-out training need assessment exercise
- Design and implement tailor-made in-house staff development program, including online training system
- Carry out impact assessment of the training programs
- Organize and conduct specific training focusing on emerging national and global issues of taxation
- Focus on ICT-based training internally and externally
- Reform in norms and practices of staff transfer and placement in order to develop sector specific professionalism
- Focus on staff development programs to enhance integrity, morale, and commitment to the organization objectives and goals.

Strategy 4.3 Strengthen institutional capabilities.

Actions

- Improve in strategic planning, programming and budgeting system
- Revise and update function-based, position-based performance indicators
- Generate MIS reports on a month-to-month basis to identify performance gaps
- Strengthen performance reporting system
- Conduct on-site and off-site monitoring and evaluation program

Strategy 4.4: Optimize Full-scale e-Governance System

Actions

- Strengthen and implement excise automation software and hardware to withdraw physical control system in excise administration
- Integrate all existing hardware and software into an Integrated Tax System (ITS).
- Enhance the technical capacity of ICT infrastructure and network
- Improve ICT security architecture and carry out audit of ICT system intermittently
- Enhance the capacity of Disaster Recovery Centre (DRC) to ensure the security of taxpayers' data
- Strengthen hardware and software of CBMS and ITS
- Introduce a comprehensive data mining system and taxpayers' information system
- Introduce and update software and application modules to collect tax returns and tax payment
- Collaborate with federal, provincial and local government organizations to develop ICT infrastructure to share information and to collect tax

Expected Results

- Organization structure and processes will be revised
- Taxpayers' accessibility to tax system will be enhanced
- A cadre-based professional tax administration will be developed
- Performance indicators will be revised
- Physical control system in excise administration will be withdrawn.
- Full scale e-governance system will be developed in tax administration

4.2 Key Performance Indicators (KPIs)

The second SP has been set for a time period of five years from 2018/19 to 2022/23. Reform Plans and Annual Business Plans will be prepared and implemented in line with the objectives of the SP.

Monitoring and review of the SP shall be carried out after completion of its second year of implementation. Final evaluation towards the end of the five-year will be conducted by an independent evaluation team. Below are some of the major indicators at the SP level:

Factors	Level of achievement
Tax Revenue: GDP Ratio	25%
Income Tax: GDP Ratio	7%
VAT: GDP Ratio	9%
Excise: GDP Ratio	5%
Numbers of Taxpayer	3 millions
Online Registration and e- filing	100%
VAT Non-filers	10%
Debit returns of VAT	20%
Income Tax Non-Filer	30%
Number of audit and investigation	5%

4.3 Risks and mitigation strategies

Some risks have been identified in relation to the implementation of SP. Relative mitigating strategies will be applied to avoid any unwanted results.

Risks	Probability	Impact	Mitigating Strategies
Policy inconsistency	Medium	High	<ul style="list-style-type: none"> • Comprehensive review and documentation of inconsistent policies followed by steps to revise the policies to address the inconsistencies • Establish constant rapport to MOF and concerned Ministries • Not to promulgate temporary type policies • Not to make frequent changes in policies, and • Document evidences of adverse effect of such practices through R&D findings

IRD with ample authority to function effectively	High	High	<ul style="list-style-type: none"> • Obtain political support • Lobby and seek authority to select, retain and mobilize competent staffs • Gradually move towards Semi Autonomous Revenue Authority
Absence of coherent team work and high turnover	High	High	<ul style="list-style-type: none"> • Gradually move into cadre-based service • Establish and mobilize various thematic groups
Improper back-up and maintenance of ICT system	High	High	<ul style="list-style-type: none"> • Carry out periodic audit of the system • Obtain international standard certification • Establish high level Safety-Net
Staff motivation and ethics	High	High	<ul style="list-style-type: none"> • Strictly observe adherence to code of conduct in staff appraisal reward and punishment system
Progressive growth in national economy and international trade	Medium	High	<ul style="list-style-type: none"> • National and international economy and develop preparedness for any unpredicted development impacting the economy of the country
Coordination between various government agencies	High	Medium	<ul style="list-style-type: none"> • Mobilize the advisory team for high level coordination between various government agencies • Conduct professionally-run monthly coordination meetings among the officials from different Government agencies

4.4 SWOT analysis and major findings

Strengths	Weaknesses
<ul style="list-style-type: none"> • Globally compatible tax policies and strategies • Reasonably adequate legal framework • Automated Risk Management practices • ICT-enabled services 	<ul style="list-style-type: none"> • Taxpayers' compliance with tax laws is still low • Law enforcement against non-compliant taxpayers is inadequate • Information sharing with other government regulatory organization is weak • Technical and professional staffs are inadequate • Revenue intelligence, research and development works are insufficient
Opportunities	Threats
<ul style="list-style-type: none"> • Stable government • Robust economic growth • Tax net expansion 	<ul style="list-style-type: none"> • Informal economy • Growing complexities due to virtual businesses • Digital data security • Tax rate reduction competition

In sum, the SWOT analysis reveals that IRD is a well-functioning institution with necessary competence. Nevertheless, there are some critical areas that require immediate attention and intervention. The journey of IRD after the first SP to this stage has shown several positive results. However, there is a need for more dedicated efforts and activities to transform from traditional way of operation to digitization of services for voluntary compliance, fair enforcement practices and to ensure the tax system is compatible with international standard.

5 CONCLUSIONS

IRD has developed SP in line with GoN's overall goal of achieving high economic growth to reduce poverty, create more jobs and improve the living standard of Nepali people. It also takes into account the learning from the implementation of the first SP (2012/13-2016/17). IRD has carefully evaluated the challenges and strategic imperatives that must be addressed in the tax administration within a local and global context. Thus it has, adopted digitization of the tax administration within five years as its overall objective.

The success of the plan will largely depend on its staff and senior executives' ability to consistently deliver but also on continuous support from GoN. Achieving GoN's revenue expectations hinges partly on positive compliance from taxpayers. Hence, IRD aims to make its services taxpayer friendly through digitization of its services.

In this SP, IRD is committing to promote a competitive tax environment and to create an enabling environment for voluntary compliance. It is also firmly committed to build a cadre-based professional staff with the view of making IRD a competent organization. For this, IRD will prioritize staff development to augment their knowledge and skills. Also it will provide them with an opportunity to engage in challenging and meaningful tasks. It will ensure enhancement of ICTsection by employing senior/ expert led officers to lead the department and by continuously upgrading its hardware and software.

As SP is a dynamic and flexible document, it will be modified according to needs identified by monitoring and evaluation reports. With this plan, IRD aims to transform itself into a modern tax administration.