Nepal: A Fifteen-Year Agriculture Tax Policy Perspectives (2015-2030)

Madan Kumar Dahal[1]

Abstract

The prime objectives of the paper are to review the main features of agriculture taxation, set vision, identify tax policy options, and examine merits and demerits of tax policy options with recommendation to preferred policy. Agriculture is not only the biggest but also a top priority sector in Nepal. However, this is a subsistence sector and, therefore, agriculture is outside the jurisdiction of taxation. Theory also suggests that tax should be levied on surplus and not on subsistence. Although government is campaigning for commercialization of over the years, the social laws promote fragmentation of holdings detrimental to implement large-scale farming. And, under the circumstances, it is virtually impossible to move towards Green Revolution through mechanization. Land ceiling has not been instrumental to raising productivity of agriculture. The major problem of agriculture sector in Nepal is that there is no adequate incentive provided to this sector at par with what India is providing to its farmers to match the quality and prices. It is, therefore, important that reforms in agriculture sector should follow phase-wise: (1) Transition - Phase I (2015-20); (2) Consolidation - Phase II (2020-25); and (3) Expansion - Phase III (2025-30). The agriculture sector must improve its productivity and move towards implementing commercialization of agriculture through agri-enterprises and with adjustments to pertaining Acts and Regulations. Unless agriculture sector would produce surplus through commercialization, incentives particularly subsidies should continue and agriculture should be free from taxation. Nepali households have emotional attachment to land, which is a symbol of pride and prestige in Nepali society and it is also the important asset and collateral for banking and business transactions.

Keywords: Tax efficiency and optimum taxation, fiscal policy and households, public policy, property law, agricultural finance, land ownership and tenure, and agricultural technology

Jel Codes: H21, H31, J18, K11, Q14, Q15, Q16

1. Taxation Policy: Theoretical Underpinnings

The prime objectives of tax policy are growth, distribution, and stabilization. The major concern is growth and it is important to analyze the effects of tax policy on distribution and stabilization in an economy. The most important "growth" objective for tax policy is to provide the resources needed for public sector capital formation and other necessary expenditures to supplement development

[1] Mega Bank Ltd., Kathmandu and Nepal Economics Association; email: madandahal.prof@gmail.com

activities including for poverty reduction. The conventional strategy for additional revenue mobilization by inducting interventionist approach, and thereby raising rates for all individuals taxes have been abandoned with the emergence of globalization and liberalization in developing economies (Dahal, 2009). In recent years, both advanced and developing economies have adhered to a reductionist approach to resource mobilization and thereby attaining the growth objectives, and so is the case in Nepal.

In recent years, tax effort ratio (TFR) has moderately increased in Nepal with lowering down of tax rates as of WTO, SAFTA, and BIMS-TEC provisions. The average growth rate of revenue has remained impressive, which went up by 22.6 percent in FY 2010/11 compared with the previous year. The revenue-GDP ratio is estimated to be 15.3 percent, which is yet one of the lowest in the SAARC region. The Three-Year Interim Development Plan (TYIDP), 2010-12 (TYDP, 2010) has envisaged that revenue-GDP ratio would level to 16.0 percent of GDP, while the Tenth Plan (2002-2007) had the target that the number of income taxpayers would reach 300,000 and the number of taxpayers registered under VAT would be 40,000 (Tenth Plan, 2002). Unfortunately, the current TYIDP has no reference to quantitative targets for VAT, Customs and Excise Duties, and income tax.

Past experiences suggest that revenue could be mobilized on a greater scale by reducing tax rates in conformity with the guidelines set by WTO, SAFTA, and BIMS-TEC provisions. The additional revenues could be generated without creating additional burden to taxpayers by expanding legal base, identifying new tax imposts, and improving efficiency of tax Administration, increasing voluntary compliance, and restraining leakages attributing to corruption. In the past, government occasionally called for voluntary disclosure of income for additional revenue mobilization, which is self-declaration of income and payment of tax according to existing rates without disclosing sources of income. However, there is apprehension that revenue derived from customs duties may decline after 2017 in Nepal resulting in increasing size of fiscal and budget deficits. The revenue deficit expected due to decline in revenue from import duties could be off-set through mobilizing additional revenue from VAT.

Whether tax burden is high or low in Nepal is an issue of debate. Two arguments can be put forward: (a) tax burden is high considering per capita income criterion, and (b) tax burden is low employing elasticity of taxation criterion. In many economies with high per capita income (> US$ 1,000), tax effort ratio (TER) is below 18.0 percent, while in Nepal with US$ 645 GNI per capita the income tax effort ratio is estimated to be 15.3 percent of the GDP. India, Pakistan, Sri Lanka, Thailand, and the Philippines the tax burden was found to be below 16.0 percent of the GDP in 2008, where GNI per capita income was higher than that in Nepal. Thus, the tax burden is high in Nepal employing the GNI per capita criterion. On the contrary, the elasticity of overall taxation is below unity and tax burden is low. This calls for improving the tax system through reforms in taxation. The tax system is said to be perfect where revenue can be mobilized without adjusting discretionary changes to upward direction comprised of increasing tax rates and expanding tax base, and without creating excess burden to the taxpayers. Distribution and stabilization aspects can play an effective role in reducing income equalities and price level and balance of payments stability.

2. Agriculture Taxation

Nepal is primarily an agrarian economy and agriculture is the main stay of life. Available data reveal that more than 74 percent of the total population still derive their livelihood directly from agriculture when contribution to GDP is as high as 33 percent as in 2010 (WDR, 2012). However, taxing agriculture sector in Nepal is not only challenging but also the most sensitive proposition, for it is a subsistence informal sector encapsulated by low productivity, disguised unemployment, and increasing rural indebtedness with acute and pervasive poverty.

The major challenge facing the agriculture sector is how to transfer the excessively dependent population from agriculture to the more productive non-agriculture sector by creating employment opportunities and reducing poverty, which is known as the process of economic transformation. The other crucial issue associated with agriculture is achieving a moderately fair and inclusive growth through commercialization and modernization of agriculture by mobilizing adequate investments to increase production and productivity of both food and cash crops (high value crops).

Although agriculture is a priority sector envisaged by the government in the existing 3-Year Interim Development Plan (TYIDP), 2010/11-12/13, resource allocations to this sector is minimal, estimated to be 3.2 percent of the total expenditures, and 0.88 percent of the GDP (Budget Speech, 2011). The private sector spending on agriculture sector is also inordinately low against the ambitious projection of TYIDP (13 percent of total investment), attributed to high cost of production and poor return on investment. More recently, Nepal Rastra Bank (NRB), the Central Bank of Nepal, has also modulated its monetary policy for FY 2011/12 in conformity with the objective the set by the government to accord topmost priority to agriculture and accordingly directed all commercial banks to step up the size of credit portfolio to agriculture sector from 3 percent to 5 percent of the total flow of investment (NRB, 2011).

Despite a series of package of enormous subsidies regularly provided to all-time infant agriculture sector, the performance is dismal due to the conspicuously low level of existing competitiveness in the quality and prices of agricultural products imported from India with the open border; inadequate subsidies below the level of what is currently provided in India on fertilizers, petro-products, irrigation, electricity, and interest on loan especially taken by small farmers; fragmentation of holdings due to existing social system; and lack of a scientific land reforms system to increase productivity for bumper production and address the issue of poverty alleviation.

The income from agriculture is exempted from taxation and the contribution of land tax to total revenue and GDP is extremely low and almost negligible, which is collected by local authorities at VDCs and municipalities. In addition, the revenue assignments to local authorities envisaged in the Local-self Governance Act 1999 provide considerable amount of resources from the impost Land and House Registration fees through sharing with the centre (LSGA 1999).

Although the legal base of agriculture taxation is extremely limited with blanket exemptions to income from agriculture, internal resources could be mobilized through taxing agriculture as a mass taxation with modernization and commercialization of agriculture and through implementation of a scientific land reforms system by developing national consensus among the major political powers. The commandments of major political parties contesting election of Constituent Assembly (CA) in April 2006 favored further lowering down of land ceiling with distribution of surplus land to the landless. However, the impact of classical approach to land reforms program on productivity in the past was neutral and indifferent to raising productivity with the social system leading to fragmentation of holdings creating distortion in the society (Election Manifesto of Political Parties, 2006).

The efforts towards commercialization of agriculture in recent times at the initiation of Agro Enterprise Center (AEC) at FNCCI, a private sector apex body, would certainly help strengthening agribusiness and establishing Small and Medium Enterprises (SMEs) ensuring tax potential in ther agriculture sector. During the last several plan periodsthe governments were totally indifferent to taxing the agriculture sector primarily because local leaders were afraid of implementing house and land tax the and process of introducing integrated tax in the municipal areas moves at snail’s speed and is confined to a very few municipalities. Although collection of revenue from house and land tax is minimal at present as of LSGA 1999, there is tremendous scope for revenue mobilization on a larger scale from the agriculture sector with the implementation of commercialization and modernization of agriculture to promote agribusiness and income generating activities among the rural poor.

3. Specific Vision

The specific vision for tax policy should be mobilization of additional resources from the agriculture sector as a *mass taxation* by taxing all income from agriculture above the exemption limit without creating excess burden to taxpayers in the long run through improving competitiveness and productivity of agriculture with induction of appropriate technology and in cooperation with the private sector to promote agribusiness by moving toward commercialization and modernization of agriculture. This requires expanding the legal base for agriculture taxation by gradually removing too many tax shelters and also reviewing the existing provisions for subsidies provided to the agriculture sector. There is also need to review and amend the existing Acts and Regulations related to agriculture and land reforms (see annex 1).

4. Overall Vision

The overall vision of agriculture sector consists of: *"a competitive, sustainable and inclusive agriculture that contributes to economic growth, improved livelihoods, and food and nutrition security"* (Vision Workshop, November 30, 2011 T he vision for tax policy to attain the overall vision of agriculture sector should be: to generate additional resources from agriculture sector as *a mass taxation* with increase in AGDP (GDP available from agriculture) by taxing income above exemption limit without creating excess burden to taxpayers and through increasing competitiveness and productivity with induction of appropriate technology through commercialization and modernization of agriculture during the next 15 years from 2015 to 2030.

5. Identification of Tax Policy Options

The time-frame for implementation of tax policy option should be phase-wise comprising Phase I: 2015-20; Phase II: 2020-25; and Phase III: 2025-30.

Phase I: Transition (2015-20) *Review of Acts and Regulations* in which LSGA 1999 should be extensively reviewed especially with reference to agriculture and land reforms - related Acts and Regulations and adjusted to necessary amendments ensuring a pragmatic and feasible revenue assignments to all local authorities and the Center to mobilize resources through: (a) own revenue sources, (b) revenue sharing, (c) internal and external borrowings, and (d) grants and assistance from the Center to local bodies.

Classification of land: During transition the Department of Land Revenue (DoLR) should launch a fresh scientific land survey in order to prepare a consolidated record of land. It is extremely important to conduct a new cadastral survey to scientifically classify the land according to its use and exchange value throughout the country. The survey will facilitate to help identify the existing status of land, for example: farm and non-farms, rural and urban, cultivated and barren, small and large estate farming, residential and commercial/business category land etc.

Updating of Land Record and Consolidated Record of Property (house and land): During the initial phase, there is need for updating record of consolidated property (house and land) of individuals and households throughout the country. The Department of Land Revenue suffers from the lack of record of entitlement, transfer and division of land, whereas the VDCs and the municipalities have no record of land ownership and database for revenue collection. Although family disputes are attributed to property in Nepal, land is not only a perennial source of resources, power, and status but people also have a great sentimental attachment to it. Land has high credit rating and is accepted as effective and a reliable collateral for borrowing from the banks and financial institutions. Unfortunately, the government has no consolidated record of property of land and house of an individual or family within Nepal. The Department of Land Revenue should launch a fresh scientific land survey to prepare a consolidated record of land.

Review of the Existing Status of Land Reforms Program and the proposal for Launching of a New Scientific Land Reforms Program: The existing land reforms program should be reviewed and it is essential to introduce a scientific land reforms program associated with the concept of raising productivity of agriculture sector comprising both food and cash crops and poverty reduction through Green Revolution. In the past, Commissions for land reforms programs were constituted but with no existence to implement the recommendations. The context of land reforms program capsized under the dungeon of federalism in Nepal, which is a prime factor why constitution making is delayed and at present not at sight. It would not be pragmatic approach to taxing agriculture sector without improving, land system by inducting a scientific land reforms program to ensure increase in production and productivity of agriculture.

Modulating the Social System to Regulate Fragmentation of Holdings: During the transition phase, it is also important to modulate the social system to regulate fragmentation of holdings through the division of property among the heirs, which has adversely affected productivity of agriculture, and jeopardize d the possibility of mechanization, to speed up the process for commercialization, and modernization of agriculture.

Reviewing the Package of Subsidies and Other Incentives: There is need to review the existing package of subsidies, incentives, and exemptions provisioned by the government for the agriculture sector, and it is pragmatic to provide targeted subsidies, and incentives in place of blanket exemptions. The Government has announced a series of programs and policies to foster agriculture development in Nepal (Budget, FY 2010/11). The list includes: (a) provision for subsidy to establish laboratory, pesticide, seeds production, and packing; (b) encouragement to land pooling system for effective mechanization of agriculture; (c) exemption for imports of agriculture tools; (d) support to irrigation; (e) subsidies on fertilizers and seeds; (f) encouragement for the use of organic and compost fertilizers; (g) provision for credit facility at concessional interest rate through small farmers cooperative institutions to the people involved in livestock, poultry, and fish-farming; (h) 50% subsidy on premium of crops and livestock insurance; (i) 50% subsidy on the capital expenditure to the small farmers cooperative institutions in the purchase of machinery and equipment for processing cardamom, tea, coffee, ginger, nut, and honey; (j) subsidy provided on electricity tariff and interest on credit to the cooperative and private sector if the cold storage operates at more than the stipulated capacity; (k) affordable credit to the farmers for commercial agriculture; and (l) effective implementation of “One Village One Product”.

VAT Instrumental to Compensate the Revenue foregone Attributed to Subsidies: At this critical juncture, there is no alternative to VAT for supplementing the required amount of subsidies provided to the agriculture sector. However, subsidies provided to other than agriculture sector s must be gradually withdrawn. In this context, the report submitted on Multi-VAT rate (Dahal, 2009) to the Ministry of Finance/Government of Nepal refers to the possibility of mobilizing additional revenues to match the size of subsides to some extent.

Valuation of Property: Upon completion of the classification of land and after accomplishing consolidated record of property, especially house and land, the next step would be to take care of valuation of property with access to infrastructure employing market price through a certified valuator approved by the government. The valuation should be continuously done after the interval of every five-year to adjust with the market prices.

Determination of Tax Rates: Thereafter, the local authorities should determine the tax rates with the approval from Local Council at VDCs and municipalities. The Ministry of Local Development/GON should assign full authority to local bodies to independently assess the value of land through a chartered valuator and determine the tax rates. The tax rates on house and land tax may differ on local body ies to other depending on the extent of development in VDCs and municipalities.

Horizontal vs. Vertical Tax Rates: A tax policy with different tax rates should be enforced in the context of property (land and house) in T erai, hills and mountains, and a separate tax rates should be introduced for improved rural and urban areas, especially in VDCs, Municipalities. A vertical tax rate should be levied on improved urban house and land with increase in income and horizontal tax rates should be applied for property under rural settings. A nominal rate should be applicable to cultivated rural land possessed by small farmers and a progressive rate should be levied on residential and commercial/business site s separately in rural and urban areas.

Developing Hill-Township and Local and Regional Market Centers—Expanding the Base of Agriculture Taxation: The local authorities should make an effort to developing hill–township in hills and mountains and promoting local and regional market centers in T erai area. The marketing centers must have access to road to connect villages with other facilities such as roof-shade with corrugated sheet, drinking water, electricity, drainage, toilet, telephone, transport, and security. This will provide substantial resources from fees and charges against the facilities provided to the marketing centers.

Method of Assessing Tax on Agriculture Land: Considering the existing vulnerabilities and poor competitiveness in agriculture sector in Nepal it is essential to continue and strengthen the existing land tax, but with upward revision of tax rates during the first phase of transition within the next five years between 2015 and 2020. This should continue as long as commercialization and modernization of agriculture through agri-business does not effectively take place in cooperation with the private sector. Three methods could be applied for assessing tax on agriculture land: (a) *tax based on land area (property)*; (b) *tax based on market value or net income of land*; and (c) *tax based on objective measures* which are proxies for land productivity or potential income of land.

Strengthening House and Land Registration Duties: It is also significant to continue and strengthen the existing provision for registration duties levied on the sale and purchase of property (house and land) with incidence of taxation on the new ownership. However, the center should relax from its prerogative to collect registration duties and transfer the authority to local bodies to collect revenue available from registration duties without sharing with the center and earmark the expenditure on priority.

Strengthening Revenue Administration: The local authorities are required to: (a) improve capacity of revenue administration by employing efficient staff and providing them appropriate in-service training: (b) improve capacity of internal auditors to manage the audit function through qualified staff by providing them appropriate training; (c) develop a sound database for land ownership and revenue collection from different sources as specified in the LSGA 1999; (c) establish either a separate revenue section or jointly with the account section.

The Role of the Private sector: The donors, government, and the private sector should work in tandem to expedite the efforts toward improving the tax system in Nepal. Since the capacity of both national and local taxation authorities are limited to effectively mobilize resources, the priority of the government should be to improve the efficiency of revenue administration. The prime stakeholders such as FNCCI and the Chamber of Commerce can play a significant role in developing a sound taxation policy and formulate an appropriate strategy to eliminate arbitrary assessment of taxation that has not only distorted the tax system but also led to a situation where the people have lost in confidence taxation as a function of economic development.

Phase II: Consolidation (2020-25) *Implementation of Integrated Property Tax (IPT):* In recent years, a few municipalities have introduced "Integrated Property Tax (IPT)" in lieu of the House and Land Tax envisaged in LSGA 1999, but with partial success. Although IPT has the great merit to generate substantial yield, a large number of municipalities are unable to implement IPT due to administrative and political constraints at the local level. Therefore, it is extremely important to effectively implement IPT during the consolidation phase II (2020-2025) in all municipalities, which would not only substitute the existing house and land tax but also supplement tremendous revenue to local bodies. However, a successful implementation of IPT by all municipalities depend on is conditioned to strong commitment of the local political leadership and efficient tax administration with updated record of house and land for each household. This requires identifying each house built within the jurisdiction of municipalities and providing house number to all houses.

Introducing Capital Gain Tax: The Capital Gain tax, especially with reference to sale and purchase of urban house and land, could be considered during the second phase of consolidation with the process of urbanization and development of infrastructure especially within the municipal areas and relatively developed rural areas. Integrated property Tax (IPT) can be annually levied based on the value of property preferably corresponding to market price or the rate as decided by the local bodies, while capital gain tax, would be charged during the sale and purchase of property based on present value employing the rates determined by the local bodies comprising VDCs and municipalities.

Introducing Inheritance Tax: It is necessary to introduce *inheritance tax* on transfer of property after the demise of the owner, which would be instrumental in yielding a substantial amount of revenue from property comprising house and land.

Phase III: Expansion (2025-30) *A Partial Withdrawal of Subsidies:* During this phase of expansion of the processes of commercialization and modernization of agriculture it would be realistic to assess further the need for subsidies and gradually withdraw from areas with improving competitiveness and retain the targeted subsidies. However, this depends on the extent of the subsidies provided by India to its farmers in different areas.

Improving Competitiveness at Par with India: There is a need to formulate vision, tax policies, and strategies for revenue mobilization in the agriculture sector by improving competitiveness, preferably at par with India.

6. Advantages and Disadvantages of Options

Merit of House and Land Tax: It is necessary to implement house and land tax at the initial stage by abolishing traditional land tax, which is a perennial source of revenue and easy to collect but with extremely insignificant contribution to total revenue mobilization at the local levels. As envisaged in LSGA 1999, the house and land tax has the great merit to generate substantial yield levied on the value of property without creating additional burden to taxpayers. The disadvantage of existing traditional land tax is that its contribution to total revenue is minimal with a series of exemptions and deductions and the politically motivated delinquency is very high.

Superiority of Integrated Property Tax (IPT): With successful implementation of house and land tax for a few years and with full groundwork preparation it is essential to switch over to Integrated Property Tax (IPT), which is particularly known as 'one-window' tax based on scientific assessment of property that would substitute all kinds of property taxes in future. The IPT has the merit to be always buoyant that would yield substantial revenue instrumental in meeting adequacy requirements of local bodies. The only disadvantage associated with implementation of IPT is that a majority of VDCs and municipalities are incompetent to prepare the updated record of consolidated property attributed to poor administration and politically motivated indifferent attitude of local authorities.

Importance of Capital Gain Tax: As the process of urbanization advances with economic development in an economy, the contribution of capital gain tax would increase through expansion in real-estates and by taxing income from transaction of property there would be scope for introducing capital gain tax.

Challenge to Taxing Income from Agriculture: Although agriculture sector is the biggest but subsistence sector taxing income from agriculture above the exemption limit will be a challenging task. Income from agriculture is fully exempted and a considerable package of subsidies is provided to farmers to encourage production and productivity in India. Similarly, the proposal for taxing income from agriculture would be a difficult choice in Nepal with low productivity, traditional agrarian system, and poor irrigation facilities.

7. Preferred Option and Justification for Recommendations

The priority should be to strengthen house and land tax by abolishing traditional land tax and also strengthen registration duties without sharing with the center at the initial stage. And, thereafter, it would be pragmatic to implement Integrated Property Tax (IPT) during the second phase by replacing all other property taxes. Capital gain tax and inheritance tax can be levied to mobilize resources at local levels in the long run. Taxing agriculture income and withdrawal of subsidies would not be feasible during the transition and consolidation phases, for the economic and political conditions are very fluid and volatile. These are subject to India's policy toward taxing income from agriculture with withdrawal of subsidies provided to farmers. The concept of fiscal federalism suggests providing more avenues for revenue mobilization to local authorities through devolution of economic powers from the center to the local bodies.

8. Combined Set of Preferred Options

It would be better to continue with strengthening house and land tax and also registration duties during the transition phase (2015-2020) and move toward inducting Integrated Property Tax (IPT) by replacing house and land tax at the end of transition and with the beginning of consolidation phase.

9. Conclusion

Agriculture is not only the biggest but also a top priority sector in Nepal. However, it is a subsistence sector and, therefore, agriculture is outside the jurisdiction of taxation. Theory also suggests that tax should be levied on surplus and not on subsistence. Although the government is campaigning for commercialization of agriculture through Budget and Plan Documents over the years, the social laws promote fragmentation of holdings detrimental to implement ing large-scale farming. And, under the circumstances, it is virtually impossible to move toward Green Revolution through mechanization. Land ceiling has not been instrumental to raising productivity of agriculture. The major problem of the agriculture sector in Nepal is that there is no adequate incentive provided to this sector at par with what India is providing to its farmers to match the quality and prices. It is, therefore, important that reforms in agriculture sector should follow phase-wise as mentioned above under: (1) Transition Phase (2015-20); (2) Phase of Consolidation (2020-25); and (3) Phase of Expansion (2025-30). The agriculture sector must improve its productivity and move toward implementing commercialization of agriculture through agro-enterprises and with adjustments to pertaining Acts and Regulations. Unless the agriculture sector produces the surplus through commercialization, incentives, particularly subsidies should continue and agriculture should be kept free from taxation. Nepali households have emotional attachment to land, which is a symbol of pride and prestige in Nepali society and it is also an important asset and collateral for banking and business transactions.

Annexure

Annex 1: Existing Acts and Regulations relating to Agriculture and Land Reforms

House and Land Tax 1962; Stamp Duty Act 1963; Lands Act 1964; Food Act 1966; Land Revenue Act 1978; Labor Act 1992; Industrial Enterprises Act 1992; Agriculture Research Council Act 1992; Cooperatives Act 1992; Insurance Act 1992; Forest Act 1993; National Tea and Coffee Board Act 1993; Privatization Act 1994; Value Added Tax (VAT) Act 1995; Income Tax 2002; Excise Duty Act 2002; Poverty Alleviation Fund Act 2006; Customs Act 2007; and Investment Board Act 2011.

Annex 2: Vision and Mission of AEC/FNCCI

Agro Enterprise Center (AEC), the agricultural wing of the Federation of Nepalese Chambers of Commerce and industry (FNCCI) was established in September 1991 under the Cooperative Agreement between FNCCI and USAID/Nepal. Within past fifteen years, FNCCI/AEC made valuable contributions in Agro - Business Development and Promotion. Since 1 October 2002, FNCCI/AEC has been re-shaped with more focused Mission and Vision and is taking a renewed role in re-presenting the private sector agribusiness community in the development of agriculture and agribusiness in Nepal.

Vision: "The vision of FNCCI/AEC in the national context is to be a strong, vibrant and sustainable private sector - led agro-enterprise sector capable of contributing high and broad - based economic growth".

Mission: "To expand and strengthen market oriented private sector - driven agro - enterprises in order to increase the value and volume of high-value products ? domestically and internationally" (www.aec.fnnci.org).

Annex 3: Alternative Methods to Resource Mobilization in Developing Countries

(1) Revenue sharing with Provincial and Central Government.

(2) Mobilizing resources through "Matching Fund" at the support and guarantee of Central Government.
(3) Introducing "Equalization Fund Scheme" especially to attain same level of services in the backward areas as compared to the advanced areas in PS.
(4) Allocating block grant to local bodies by Central Government in its annual budget approved by the Parliament.
(5) Mobilizing savings from households receiving remittances especially in the context of income generating activities and poverty alleviation.
(6) Developing economically viable projects under public-private partnership with investment loan from commercial banks and lending agencies including foreign funding agencies.
(7) Setting up of a "Local Development Fund".

Annex 4: Revenue Assignment as of LSGA, 1999

- Inter-government al fiscal transfer and amount received from revenue sharing (Unconditional grants to DDCs: HDI 505; Area 105; Population 205; and Cost index 205)
- Internal revenue received from tax and non-tax sources
- Internal and external borrowings
- Miscellaneous sources including the programs supported by donors.

Revenues to DDCs through Revenue Sharing

- 5-90% of revenue collected from house and land registration
- 50% of royalties received from mines
- 40% of fees collected from tourists
- 10% of royalties received from forest products
- 50% of royalties received from hydropower. Of which DDC located at hydro-plant area will receive 12% of the amount received by DDC, and other districts within the development region where hydro-plant is located will receive 38%.
- 25% of *Malpot* (annual fee against entitlement/ownership of land) collected by VDCs and Municipalities
- 45-50% of total collection of DDCs from the sale of sand, stone, slate, and *gitti* etc should be provided to concerned VDCs and Municipalities

Revenues to Municipalities

- Grants from the government
- Grants from DDCs
- Grants from TDF
- Internal sources
- Local development tax (75-80% of total revenue including all grants). LDT is collected at Customs points at the rate of 1.5% of import duties.

Structure of Income in VDCs

- Grants from the government
- Grants from DDCs
- Other grants
- Internal sources

Annex 5: Tax Structure in Selected Countries, 2008

Countries	GNI Per Capita	Tax revenue as % of GDP	Income Tax Rate %	Corporate Tax Rate %	Sales/ VAT Rate %
Argentina	7,200	22.9	35	35	21
Bangladesh	520	8.5	25	27.5	15
Bosnia Herzegovina	4,510	41.2	10	10	17
Brazil	7,350	38.8	27.5	25	20
Cambodia	600	8.0	20	20	10
China	2,940	17.0	45	25	17
Denmark	59,130	48.9	51.5	25	25
Egypt	1,800	15.8	20	20	10
Germany	42,440	36.2	42	33.3	19
India	1,070	17.7	30.9	33.9	12.5
Japan	38,210	27.4	40	40.8	5
Malaysia	6,970	15.5	26	25	5-10
Nepal	400	10.9	25	20-30	13
Pakistan	980	10.6	20	35	16
Saudi Arabia	15,500	5.3	2.5	20	0
Senegal	970	19.2	50	25	18
Singapore	34,760	13	20	17	7
South Africa	5,820	26.9	40	28	14
Thailand	2,840	17	37	30	7
United Arab Emirates	NA	1.4	0	0	0
USA	47,580	28.2	35	35	0
Vietnam	890	13.8	35	25	10
Zambia	950	16.1	35	35	16

Source: Wikipedia March 2010; World Development Report 2010; http://www.taxrates.cc

Annex 6: Nepal: Methods for Revenue Mobilization during the Short Run (Major Taxes only)

Tax Heading	Strategy	Remark
Indirect Taxes		The contribution is around 60.0 percent of total revenue.
VAT	Implementation of multi-rates after study by the govt.; Problems such as under-invoicing and non-issue of bills should be resolved; number of taxpayers under VAT to be increased in cooperation with private sector- FNCCI, CNI, Chamber of Commerce etc.	The share VAT is approximately 30.0 percent of total revenue

Tax Heading	Strategy	Remark
Customs Duties (Import Duties)	Import duties might go down gradually due to WTO, SAFTA and BIMS-TEC provisions; Binding constraints are lowering down of import duties between 0-5.0 and maximum 20.0 percent during the stipulated timeframe.	Need to go for Free Trade Area (FTA) with India and China earliest possible; Sri Lanka has already entered into FTA with India, and Bangladesh is preparing to negotiate with India for FTA; As long as an economy is poor and backward, heavy reliance would be on import duties.
Excise Duties	Excise duties on cigarette, *bidi,* liquor, and beer could be moderately increased with a minimum contribution to create a fund for health.	The contribution is around 10.0 percent of GDP
Direct Taxes		Contribution is around 20.0 percent inclusive of house and land registration
Income Tax	This is premier direct tax; Rates for personal and business income tax, and corporate tax should be lowered down by 5.0 percent (from 25% to 20%) to provide incentive to investors ensuring growth; Survey should be conducted to identify new taxpayers; Strengthen self-assessment system.	Contribution is nearly 18.0 percent of total revenue
House and Land Registration Tax	The local bodies should be authorized to collect this tax and also spending assignment should be given to them	Share around 2.0 percent
Non-Tax Revenue	Emphasis should be on collecting more revenue through user charges.	Example: Telephone and Electricity
Local taxes	Integrated property tax should be implemented in Municipalities; Revenue mobilization depends on the proposed federal structure.	This would combine house, and land tax etc.
New tax imposts	Implementation of Voluntary disclosure of Income Scheme (VDIS).	This should not be a regular business

Tax Heading	Strategy	Remark
Tax administration	Leakages should be checked through restraining corruption; Tax administration should be made effective, honest and dynamic by inducting reward and punishment system for tax officials; Corrupt officials should be dismissed.	MOF should introduce code of conduct for tax officials
Taxpayers	Need for providing dignified treatment to the taxpayers.	State should honor highest taxpayers as CIP
The role of Government	Strong political will and determination of the govt. is required to implement the proposed tax policy; Strong action should be taken for tax delinquency; Defaulters should be given ultimatum of three months to clear the loans taken from the banks; Govt. should earmark expenditure for providing pure public or merit goods.	Efficiency most essential
The role of private sector	Attract FDI in joint ventures in cooperation with govt., which will provide capital, technology, and employment; Employment is a key to development.	Efficiency most essential

* This is a preliminary proposal developed by the author.

Annex 7: The 10 nations with best Tax-to-GDP figures are: Denmark (50 percent), Sweden (49.7 percent), Zimbabwe (49.3 percent), Belgium (46.8 percent), France (46.1 percent), Cuba (44.8 percent), Finland (43.6 percent), Norway (43.6 percent), Lesotho (42.9 percent) and Italy (42.6 percent).

Annex 8: Case Study: Fertilizer Subsidies in India
The Wall Street journal report of 22 February 2010 "Green Revolution in India Wilts as Subsidies Backfire": "India has been providing farmers with heavily subsidized fertilizer for more than three decades. The overuse of one type - urea - is so degrading the soil that yields on some crops are falling and import levels are rising. So are food prices, which jumped 19% last year. The country now produces less rice per hectare than its far poorer neighbors: Pakistan, Sri Lanka, and Bangladesh. The cabinet announced that India would adopt a new subsidy program in April, hoping to replenish the soil by giving farmers incentives to use a better mix of nutrients. But in a major compromise, the government left in place the old subsidy on urea - meaning farmers will still have a big incentive to use too much of it."

"Under the new plan, the government will offer subsidies to fertilizer companies on the nutrients, such as sulphur, phosphorus, and potassium, from which their products are made, rather than the fertilizer products themselves. The idea is to provide incentives for farmers to apply a better mix of nutrients. Ultimately, the government plans to pay the subsidy directly to farmers, who will be able to buy products of their choice, including but not limited to urea. The government, however, said it would continue to subsidize urea, although it would set the price 10% higher."

Source:http://online.wsj.com/article/SB10001424052748703615904575052921612723844.html

Annex 9: Land Revenue as % of Total Revenue, 1974/75 - 2009/10 (Rs in millions)

FY	Total Revenue	Land Revenue	In % of Total Revenue
1974/75	84.17	9.09	11.8
1975/76	90.86	9.48	10.4
1976/77	110.01	9.79	8.9
1977/78	124.39	8.70	7.0
1978/79	147.68	5.46	3.7
1979/80	153.88	5.62	3.6
1980/81	203.57	10.07	4.9
1981/82	221.13	8.17	3.7
1982/83	242.61	6.67	2.7
1983/84	273.70	7.72	2.8
1984/85	315.12	7.69	2.4
1985/86	365.93	7.42	2.0
1986/87	437.17	7.24	1.7
1987/88	575.28	8.07	1.4
1988/89	628.72	8.04	1.3
1989/90	728.39	7.46	1.0
1990/91	817.63	8.21	1.0
1991/92	987.36	6.48	0.7
1992/93	1,166.25	6.94	0.6
1993/94	1,537.15	6.10	0.4
1994/95	1,966.00	3.49	0.2
1995/96	2,166.80	1.82	0.1
1996/97	2,442.43	0.59	0.02
1997/98	2,593.98	0.36	0.01
1998/99	2,875.29	0.14	0.00
1999/00	3,315.21	0.46	0.00
2000/01	3,886.50	0.51	0.01
2001/02	3,933.06	0.08	0.00
2002/03	4,089.60	0.00	-
2003/04	4,817.30	0.00	-
2004/05	5,410.47	0.00	-
2005/06	5,743.04	0.00	-
2006/07	7,112.67	0.00	-
2007/08	8,515.55	0.00	-
2008/09	11,706.19	0.00	-
2009/10	15,629.49	0.00	-

Source: Economic Survey, FY 2010/ 11, Vol. II.

REFERENCES

ADB/ADS. 2011. Vision Workshop, November 30, 2011, Kathmandu

Dahal, M.K. 2009. "Taxation in Nepal: Structure, Issues and Reforms", *The Economic Journal of Nepal,* Vol. 32, No.1. A Quarterly Publication of Central Department of Economics, TU.

Election Manifesto of Major Political Parties, 2006. Kathmandu.

http://online.wsj.com/article/SB10001424052748703615904575052921612723844.html

http://www.nrb.org.np, *2011*.

http://www.taxrates.cc

IBRD/World Bank. 2010. *World Development Report 2010*. Washington, DC.

IBRD/World Bank. 2012. *World Development Report 2012.* Washington, DC.

MOF/GON. 2010. *Economic Survey for FY 2010/11*. Kathmandu.

MOLJ/GON. 1999. *Local Self - Governance Act 1999.* Kathmandu

NPC/GON. 2002. *The Tenth Plan (2002),* Kathmandu.

NPC/GON. 2010. *3-Year Interim Development Plan (2010).* Kathmandu.

Wikipedia, March 2010.

***