



आन्तरिक राजस्व विभाग
Inland Revenue Department

Informal Economy & Taxation: Nepalese Context



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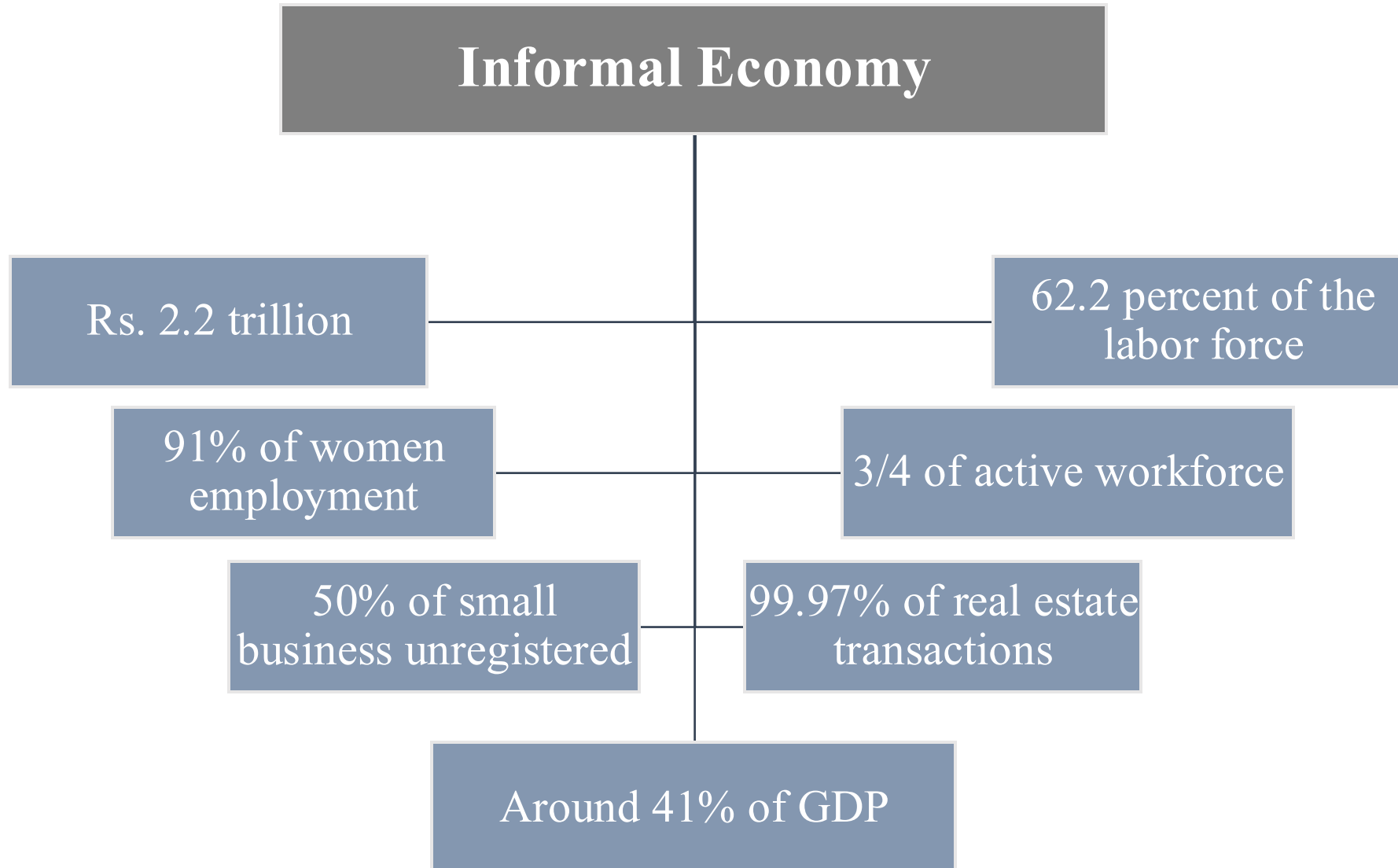


- Nepal's informal economy is significantly large.
- Consists of unregistered businesses and workers,
- A large area is out of tax net,
- Curb access to social security,
- Means of alternative employment opportunity,
- Agriculture, forestry, fishing, real estate and food service activities have a high share.



Prevalence

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Factors Causing Informal Economy

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- Limited *finance to access*,
- Low Business Confidence Index,
- High Unemployment and Underemployment,
- Poverty and Gender Inequality,
- Bureaucracy and Regulations,
- Frequent Policy Changes,
- Low practice of digital transactions,
- The open border with neighbor Country.



Taxation & Provisions

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- Income Tax, VAT, Customs and Excise as major taxes,
- The IRD is responsible for tax administration,
- Individual agro income is income tax exempted,
- Many goods & services are VAT exempted,
- Threshold for registration in VAT of Rs. 5 million,
- Threshold in Income Tax for taxable income,
- Provision of presumptive taxpayer for small business.



Informal Economy: Tax Perspective

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- The complexity of tax procedures,
- Intention of tax evasion,
- Evade taxes due to lack of oversight, weak enforcement, or deliberate non-compliance,
- Individual person Agro business is tax exempted and is not responsible for return submission, this may create the chances of multi-dimensional informal economy. Such as the remuneration income, rent income, second party sales purchase income etc,
- Many businesses operate below VAT threshold, which omits the duty to submit rigorous account, resulting the chances of informal transactions,
- Presumptive taxpayers do not need to submit financial reports, workers in this sector might have been out of tax net,
- Low financial literacy discourage small-scale entrepreneurs from formalizing their businesses.



Major Implications

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- A narrow tax base,
- Tax burden shifts to the formal businesses & bear the full burden of taxes.
- Risk of discouraging formalization and even encourage formal businesses to engage in informal practices to avoid taxes.
- The lack of accurate data on informal activities also makes it challenging for tax authorities to assess potential revenue, design effective tax policies, and monitor compliance.



Efforts to Drag into Formal Economy

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- Policy measures to promote electronic transactions,
- Compulsory bank payment transaction $>$ Rs. 50k.
- Instant 10% VAT Return on e-payment,
- PAN is mandatory for opening Bank a/c,
- Collaboration with local bodies to gather information on informal transactions,
- Prioritizing taxpayers education,
- Simplifying the tax registration & procedures,
- Tax investigation and enforcement.



Way Ahead

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- Promotion of cashless transactions,
- Tax procedures further simplification,
- Enhancement of taxpayer education,
- Strengthening the tax enforcement,
- Gradually reduction of the tax exemptions,
- Broadening the inter-institutional co-operation.

Focus Areas

- *Digital Transformation*
- *Policy Reforms*
- *International Collaboration*



International Best Practices

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- India: GST simplified small business taxation,
- Rwanda: Use of mobile tech in tax collection,
- Brazil: Cadastro Unico to integrate informal sector,



Thank You !!!