

Tax Auditing System in Nepal

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Inland Revenue Department (IRD)

आन्तरिक राजस्व विभाग
Inland Revenue Department
करदाताको सेवामा समर्पित



कर प्रणाली सुधार वर्ष २०६८



करको चर्चा घरघरमा गरौं, कर तिरोँ, राष्ट्र निर्माणमा सहभागी बनौं ।

Outline of the presentation

- Introduction to IRD
- Mandate and approaches
- Revenue performances
- IRD Reform Plans
- Tax Auditing in Nepal : Objective, Legal Provision, Selection Criteria, types and Performance
- A Great Achievement–Fake bill investigation
- Initiations for audit quality enhancement.
- Challenges ahead
- Reform Strategy & Plan

Inland Revenue Department Introduction;



Established in July 2002 after the merger of Value Added Tax Department and Income Tax



Staffed by approx 1000 permanent and 300 contract staff



Offices – 1 LTO, 22 IROs, and 28 TSOs – 13 in Valley and 15 outside valley

Mandate



Income
Tax

VAT

Excise

Health Tax

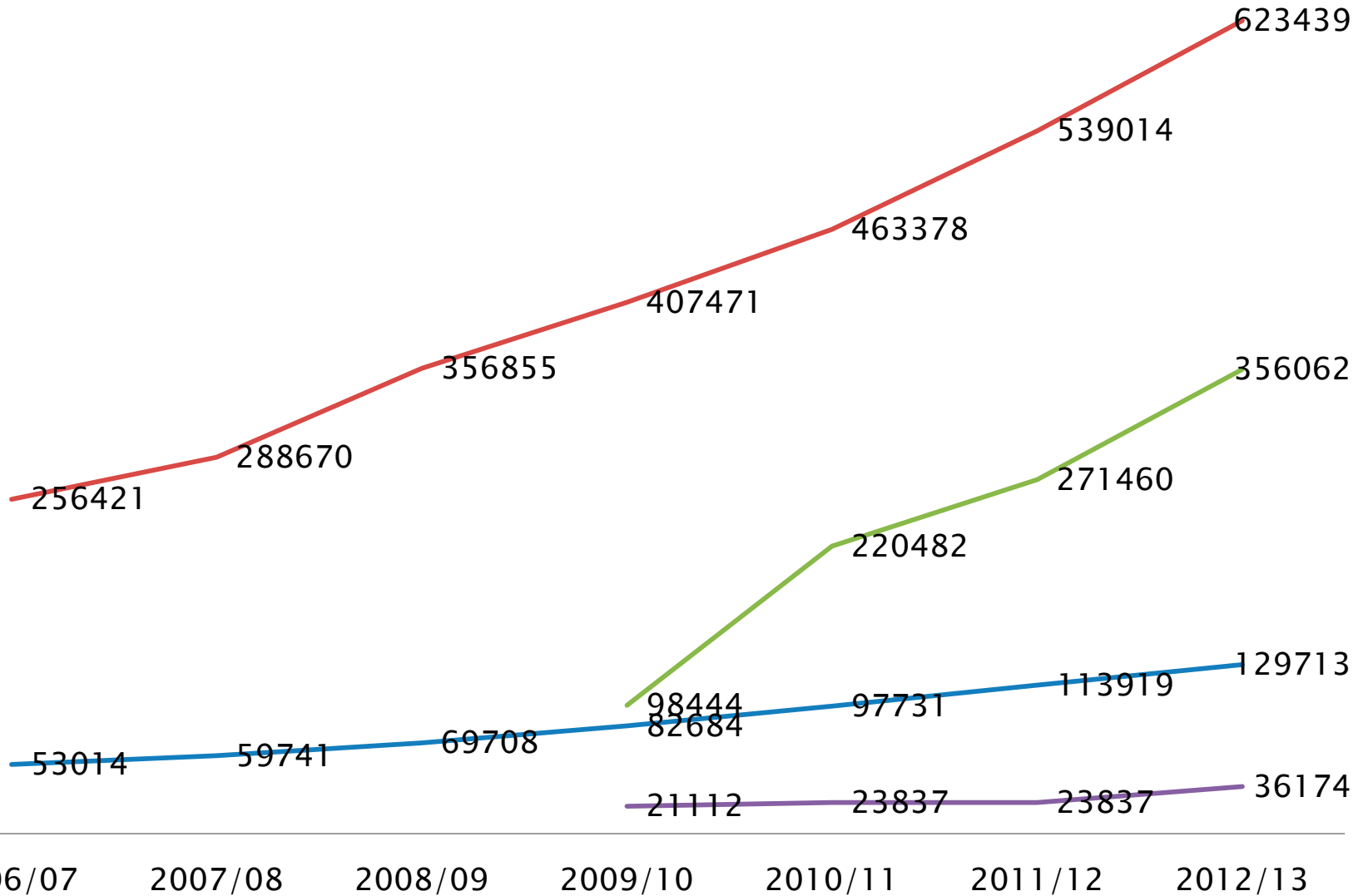
Education
fee

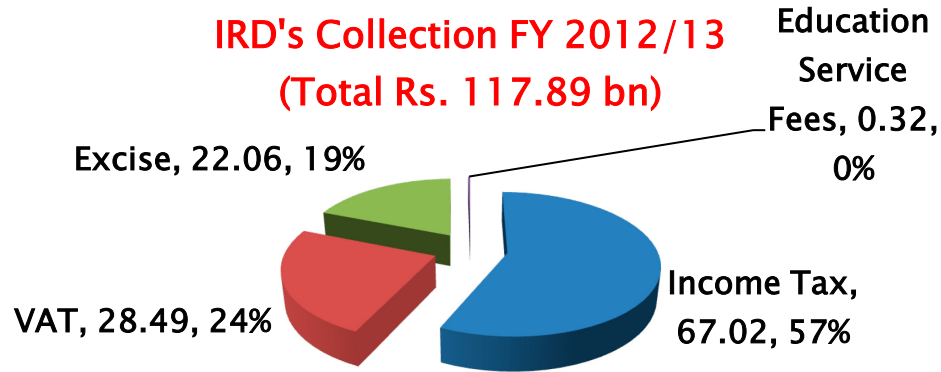
IRD Approaches to Taxation

- Voluntary compliance based tax system.
- Research based Tax policy Reform.
- Need based taxpayer education and awareness.
- IT based tax payers service.
- Scientific forecasting based Revenue Estimation.
- Indicator based Risk management & Audit.
- Functional organization.
- Information and Intelligence based enforcement
- Evidence Based tax investigation.
- Cadre based, tax payers friendly Administration.
- Fair based Administrative Review System.

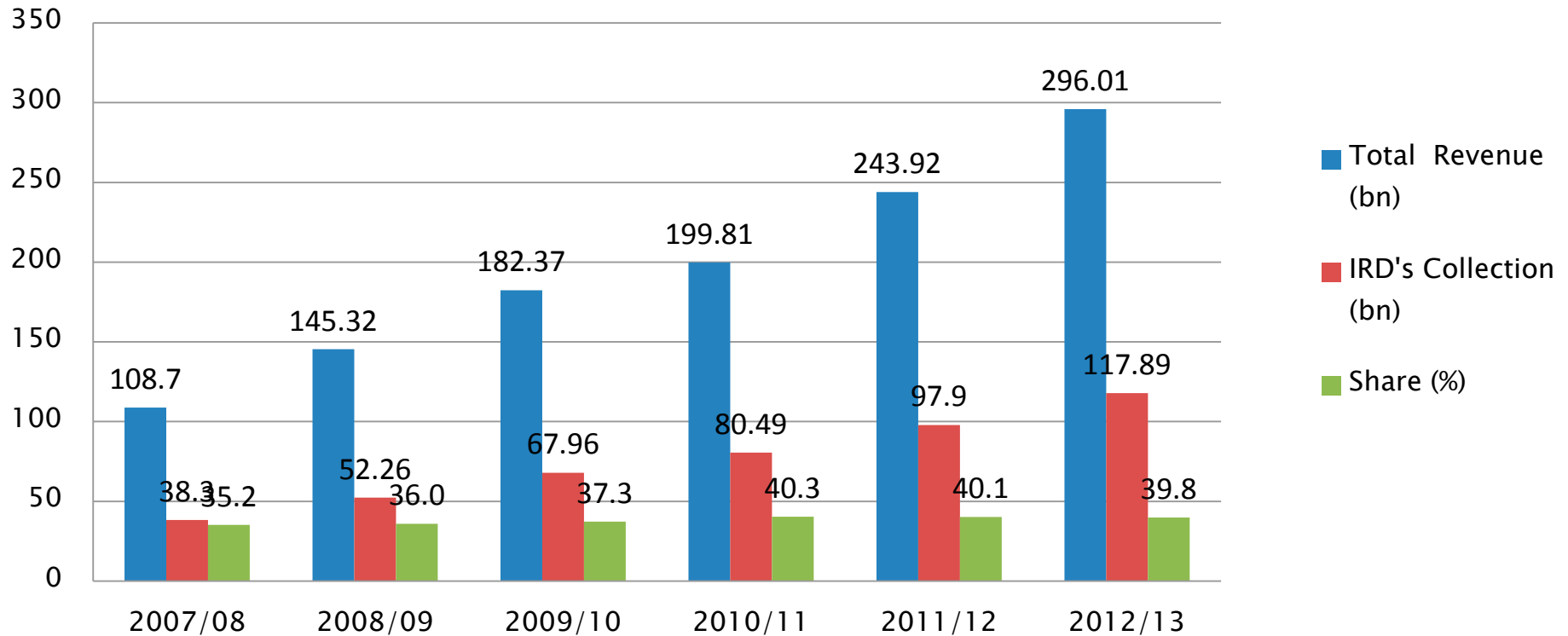
Growth in Tax Net

— VAT — PAN — PIT — Excise

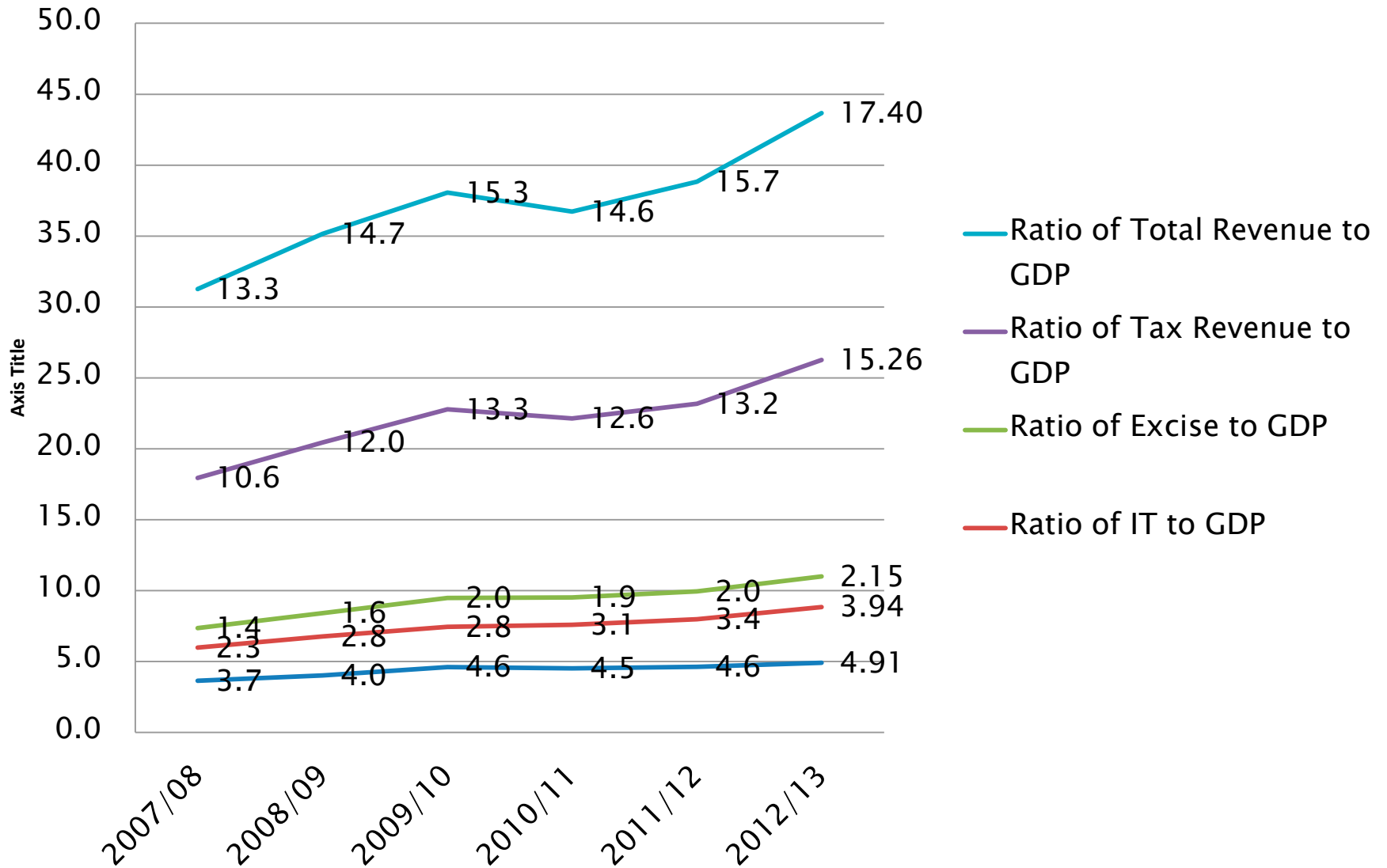




IRD's Contribution to Total Tax Revenue Collection



Revenue Analysis to GDP (%)



IRD Reform Plans

- Strategic Plan (SP) 2012/13–2016/17
- Reform Plan (RP) 2012/13–2014/15

Directions of the SP

Vision – An efficient organization for internal revenue mobilization, professional services, innovation and economic growth.

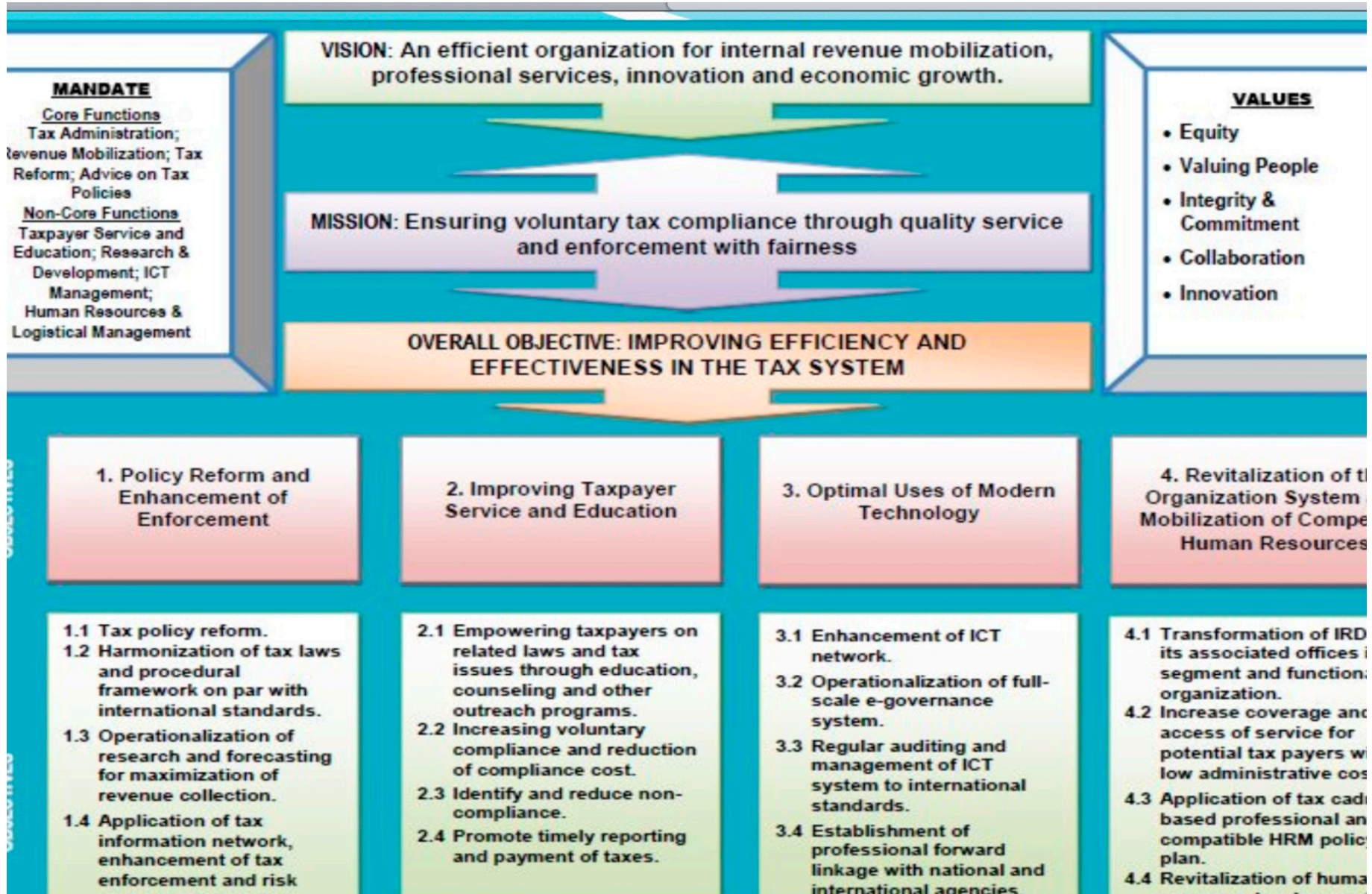


Mission and Objectives

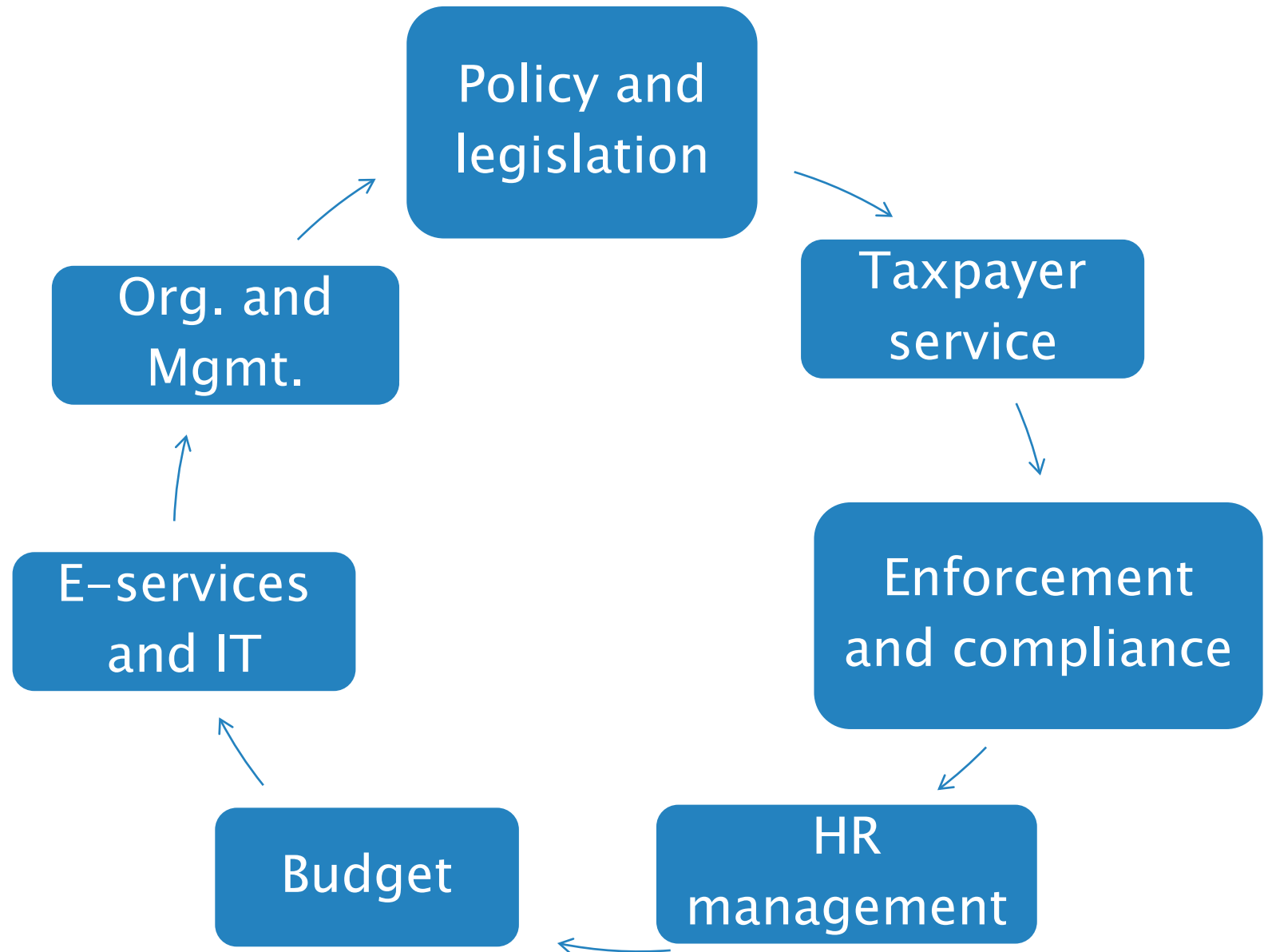
Mission – Ensuring voluntary tax compliance through quality service and enforcement with fairness.

Overall objective – Improving efficiency and effectiveness in the Tax System.

IRD Strategic Plan : at a glance



Reform plan and its priority areas



Major Results Expected

- Tax GDP ratio increased to 18% within 5 yrs.
- 100% large tax payers and 2 % of other taxpayers will be audited annually.
- Maintain non-filer rate below 10% in VAT and 40% in Income Tax.
- Establishment of fully functional and segment based organization.
- Decrease compliance cost by 50 percent.
- Full Integration and full automation of VAT, IT and excise system.

Tax Auditing in Nepal

Objectives:

- Promote voluntary compliance.
- Detect non-compliant taxpayers.
- Gather information on the “health” of the tax system (including patterns of taxpayers’ compliance behavior).
- Gather intelligence.
- Educate taxpayers to identify improvement and record keeping.
- Combat evasion and avoidance.

Tax Auditing in Nepal

Legal provision to audit & enforcement :

- Monitoring of suspected taxpayers.
- Selection of cases for audit and investigation based on Risk factors.
- Imposition of Financial Penalties:
 - Additional Charges,
 - Fees,
 - Interest,
 - Penalty etc.
- Suspension of Transaction.
- Closure of Business.
- Imprisonment.

Tax Auditing in Nepal

Selection criteria : VAT

Priority	Criteria	Weight age (%)
1	Large Turnover	15
2	Large Credit	15
3	Decreasing Debit	10
4	Mixed Transaction	10
5	Negative Value Added Ratio	10
6	Increasing Credit	5
7	Increasing debit	5
8	Last Management Assessment	10
9	Tax Refund	10
10	Contract and other sectoral risk areas identified by Investigation	10

Tax Auditing in Nepal

Selection criteria : Income Tax

Priority	Criteria	Weight age (%)
1	Large Turnover	20
2	Gross Loss	15
3	Debt Equity Ratio (Long term loans & shareholder funds)	15
4	Gross Profit Ratio	15
5	Net Profit Ratio	15
6	Net Profit before Interest and Tax Ratio (NPBIT/sales*100)	10
7	Financial cost Ratio (Interest expenses/sales*100)	5
8	Current Ratio (current assets/current liabilities*100)	5

Tax Auditing in Nepal

Types of Tax Auditing

Investigative Audit

Pay Roll Audit

Link Audit

Group Audit

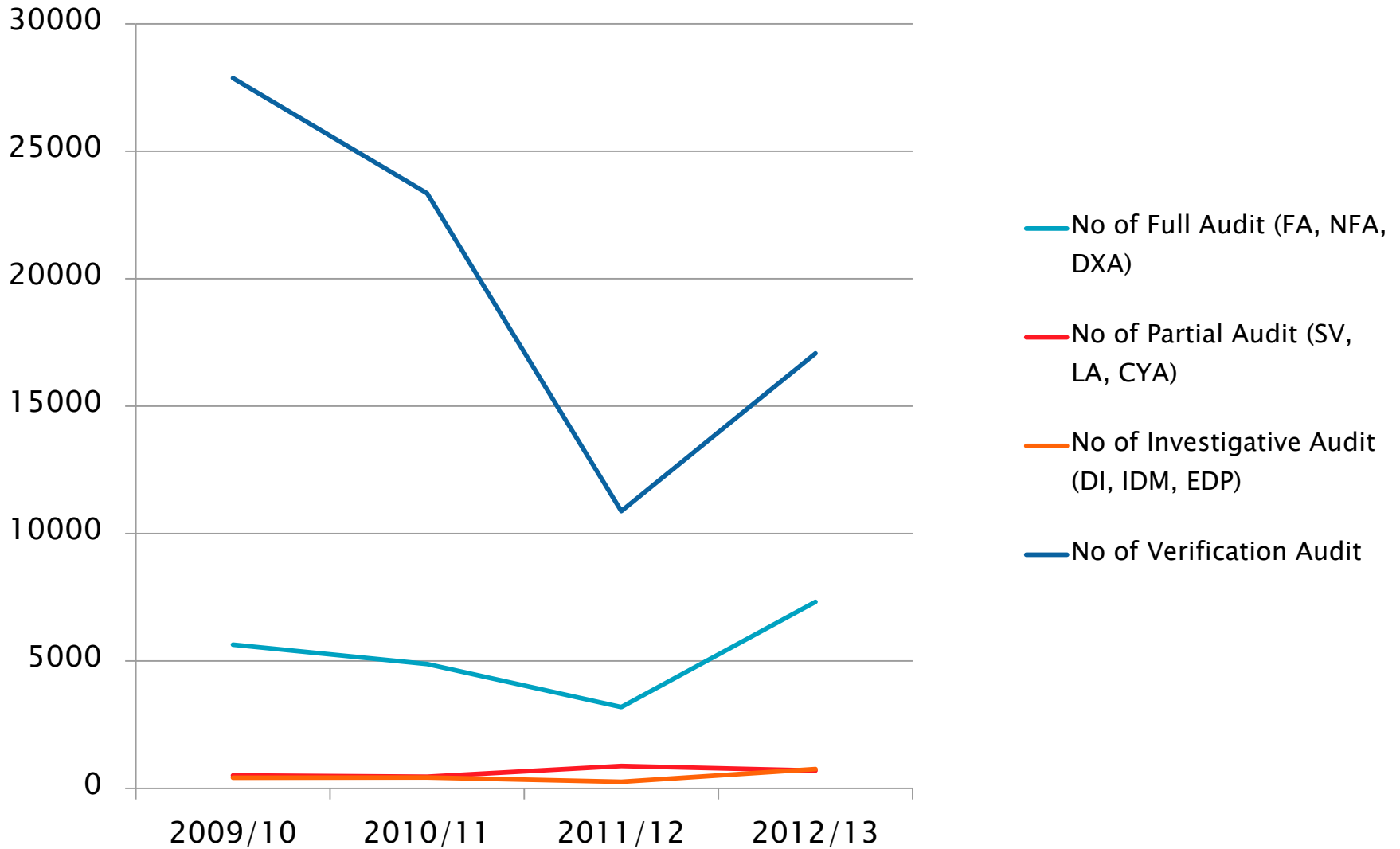
Full Audit

**Current Year
Verification**

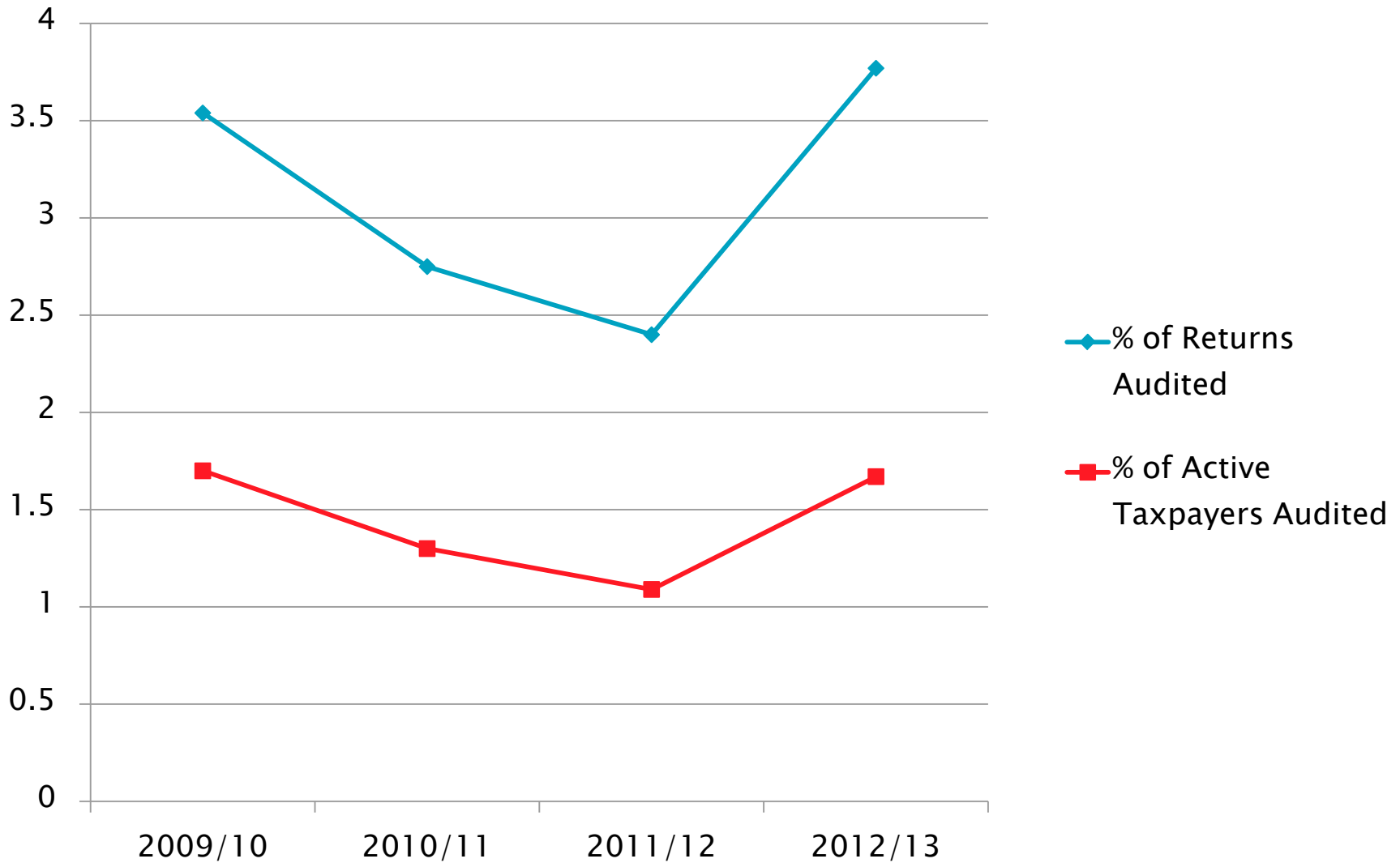
Partial Audit

Verification Visit

Audit Performances : No of Audited Taxpayers

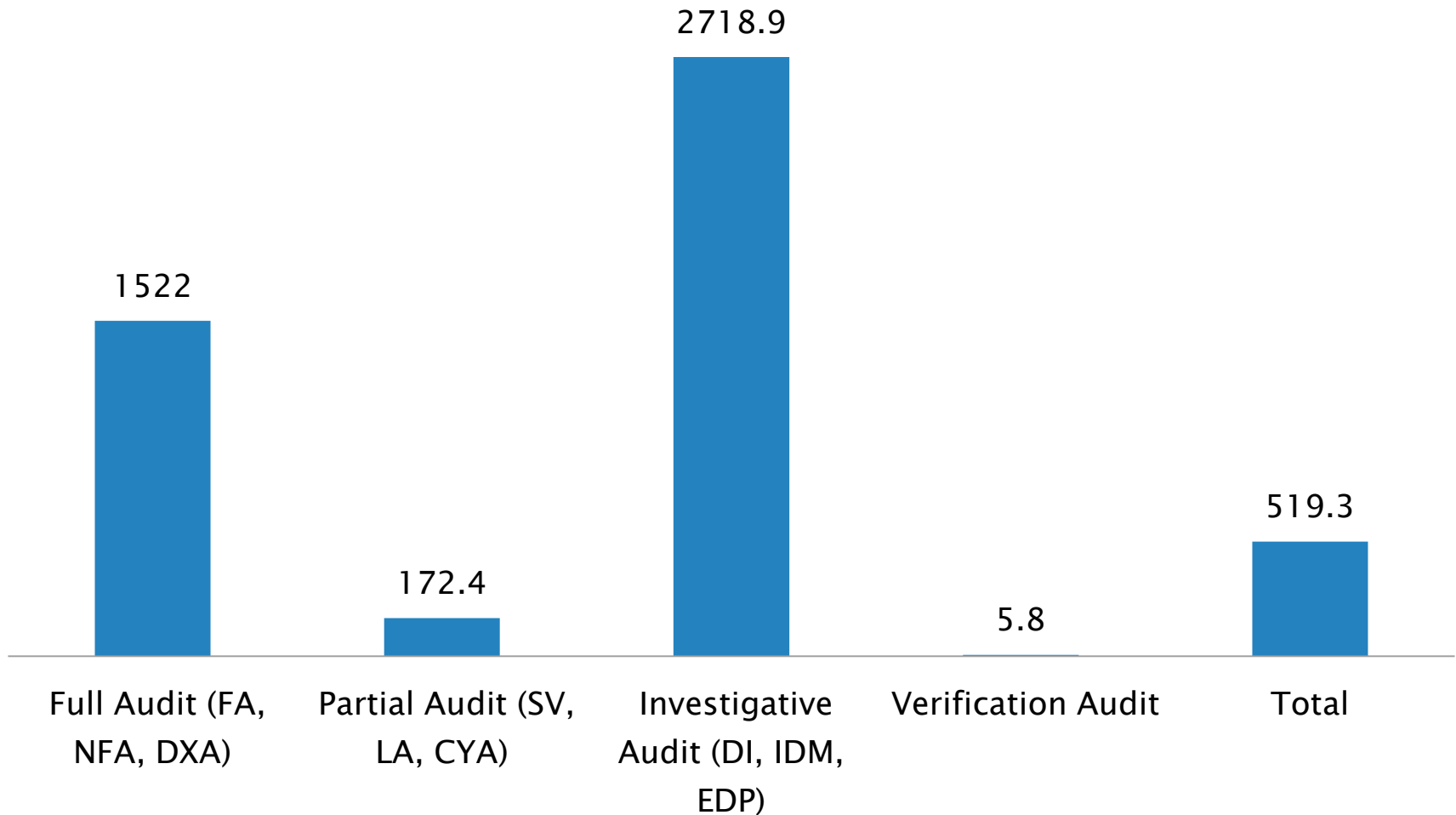


Audit Performance : Audited returns



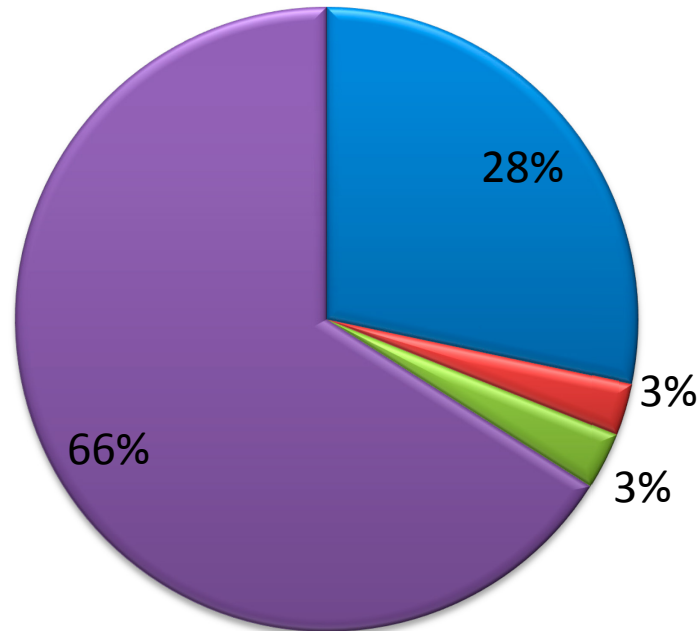
Audit Yield : F.Y.2012/13

■ Per Audit Demand (000)



Composition of Audit Performance : F.Y.2012/13

- No of Full Audit (FA, NFA, DXA)
- No of Partial Audit (SV, LA, CYA)
- No of Investigative Audit (DI, IDM, EDP)
- No of Verification Audit



A Great Achievement

?

Fake bill investigation

Fake bill investigation: Major Findings

- Issuance of fake invoice using fake/wrong Permanent Accounts Number(PAN).
- Issuance of fake invoice by using another persons' PAN.
- Issuance of Invoices to another person (daily sales were invoiced to unrelated parties in the evening.) B2C transaction converted to B2B.
- Registration was made only to issue the invoice.
- Fake/Paper export

Fake bill investigation

Additional Amount Assessed :

- 518 cases : NRs. 6.97 billion (2010-11)
- 377 out of 495 cases : NRS.4.16 billion (2012-13)
- 481 out of 1533 cases : NRs. 509 million (2013-14)

Initiatives for audit quality enhancement

- Comprehensive Audit Manual.
- Comprehensive training on audit.
- Use IT facilities (Selection of taxpayer, use of third party data).
- Use of indirect income measurement techniques.
- Enhance EDP (Electronic Data Processing) audit capability.
- Audit strategy based on tax payers segmentation.

Initiatives for audit quality enhancement

- Initiation of tax information network (TIN).
- Data link with Company Registrar Office, Department of Customs (In progress).
- Integrated market monitoring and billing enforcement program.

Challenges :

- Measuring and reporting performance: audit yield, productivity and volume.
- Improving the focus and conduct of audits.
- Audit workforce management issues: Strengthening capability, Transfer policy, Enhancing professionalism.
- Arrear of audit.
- Transparency & Keeping up high moral of the tax personnel.
- Detecting serious tax fraud and action against it.

Reform Strategy and Plan

- Enhancement of risk management and enforcement capability.
- Revise existing risk based indicators to become vigilant on issues and to become proactive to manage the risks on time.
- Revisit existing audit policies by segmenting revenue risks, nature of taxpayers and businesses, turnover, and time lag.
- Revise existing selection criteria for internal review.
- Determine new audit strategy.

Reform Strategy and Plan

- Enhance the audit manual to reflect new audit types and include specific audit approaches for high risk sectors.
- Based on audit strategies, develop a new fully risk-based national audit program.

Expected Result :

- 2 % taxpayers (including cent percent of large taxpayers) will be brought into full audit annually.
- 15 % LTO audited files and 10 % other IROs audited files will be reviewed by IRD.

**Thank You all
from the country of the
Mount Everest**

