

## An Appraisal of Tax Escaping in Nepal

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### Abstract

The Nepalese government for a sustainable economic development is also fully depended on the source of finance. The increasing rate of tax avoidance has been a key dare to the government in generating the income. Therefore tax avoidance or evasion is considered as a noteworthy issue in these days- a key to economic maturity. This paper judges the effects of tax avoidance on Nepalese economic developmental environment. Only one hundred fifty Nepali sensitive citizens have been administered with a structured questionnaire presented in front of tax payers and tax evaders. It has been found that the tax avoidance has adversely affected economic development, good governance and unpatriotic act of tax payers. On which basis the tax avoidance activities are carried out. Thus the study has recommended that the government should encourage sound governance system for the voluntary conformity of tax liability in the mind of tax payers.

*Key words:* a voidance of tax, economic excellence, tax liability and evasion

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### Introduction

According to *Oboh (2012)*, the concept of taxation is of growing concern globally. It impacts the economy and creates the national differences as well. Similarly, *Omotoso (2001)* focused on the tax as a compulsory charge obligatory for a person and firms by a public authority on the income as set by the government. A recent and wide-ranging meaning given by *Dr. Ekenze Oliver of Buitas Consultancyom tax that is as a compulsory levy imposed by an organization or government on its member citizens, for the sole reason of delivering common goods and services for the profit of all related members. Focusing additional by him as the tax is designed to raise revenue essential for the expenditure authorized in a government budget prospect. It is also a absolute tool of promoting social and economic justice and fairness among the citizens of a voluntary or members of an organization. Hence a tax is not a voluntary payment; it is a compulsory economic burden to be found upon the subjects of the country to support the people. Thus, taxes represent the prime source and the beauty of any government.*

This is for its citizen to voluntarily execute their tax obligation without greatly coercion and persecution. A magic puzzle we should realize and accept easily is nothing other than having the threat of tax avoidance or evasion in a greater scale knowing and unknowingly. It is commonly believed that there is considerable difference between estimated revenue from taxation which has been collected in each year.

### **Statement of problems and Aims of the study**

Tax collection is significant for economic advance but it is not easier to collect tax adequately as per rule of government because of so many threats i.e. tax education, Misappropriation of taxes, Ignorance of the tax payer, Inadequate qualified personnel, illiteracy, High tax rates, and Inadequate accounting and th like. Therefore this researcher endeavored to set the objective to determine the reasons for tax avoidance and to make necessary suggestions for the government with the close stud with the survey of sensitive citizens selected judgmentally. This study is limited to the period of *Baisakh and Jesth of 2074 B.S.* This study is limited to only tax avoidance and related opinions given by the respective sample respondents. It is more beneficial to the respective stakeholders in the long-run.

### **Literature Review**

The meaning of tax avoidance or escaping is nothing other than the reduction or minimization of a person's tax liability. In simple terms we can understand that it is circumspcctly arrangement of loopholes in the tax law provisions. It is the intentional act of tax payers to pay the less to the tax authority than the compared to pay the real figure of tax. It is considered as legal. While examining the attitude of the courts and the legislature towards tax avoidance, Professor Wheat craft observed that tax avoidance is an art of winning games without actually cheating; thereby beating the internal revenue and the government to their own game. Correspondingly, Westminster and Lord Tomlin looked in depth with respect to tax avoidance where Everyman was entitled, if he could order his affairs so that the tax attaching under the appropriate acts is less than it would be. If he succeeds in ordering them so as to protect this result, then however in appropriate, the commissioner of Inland Revenue or his fellow tax payers may be of his cleverness, he cannot be forced to pay the increased tax. As per *Martinez and Aim (2001)*, tax avoidance is the legal reduction in tax liabilities by practices that take full benefits of the tax code i.e. delay of taxes, income split and tax arbitrage across incomes that look diverse action .

As a result the tax avoidance comprises the use of strategies that consent to the legal minimization of taxes, and also for the search of methods is to exploit deficiencies in the law. Therefore a type of opinion that tax avoidance is said as unpatriotic and anti-social, it clears that it is not a moral and legal issue if not the legislature expressly prohibits it. The reasons behind Tax Avoidance in Nepal are uncounted which is identified with the pertinent study of

these outstanding literatures. *As such Uadialeet al. (2010)* said that tax avoidance is a complete misleading action whereby the taxpayer endeavors to reduce his/her tax liability illegally. So it is accomplished by a intentional act of omission or commission which constitutes criminal acts under the tax laws these acts include: failure to pay tax like omission of items from returns, withholding tax, failure to submit returns, , claiming relief in personal income tax. We can give illustration as of children that do not stay alive, without understating income, documenting fictitious transactions, overstating expenses and failure to respond (*Farayola, 1987and Uadialeet., 2010*). Also there some other reasons have been found in Tax avoidance which are the corruption practices in community office, insufficient tax education and alertness, fraud in collected taxes, ignorance of tax power, lack of ample enforcement for failure to pay, rise of taxes, ambiguity in the tax laws, unjust distribution of income, absence of ‘*Quid Pro Quo*’ like something of value given in return (*by the government*) for taxes paid, high level of illiteracy and tax rates.

As we know that the tax avoidance unquestionably and unfavorably affects in the government revenue generation capability or as a whole in the national economy. In contrast, in spite of the Nepalese governmental efforts done to curb the practices of tax evasion and tax avoidance a lot though the dilemma motionlessly are persisting. No doubt, the federal government in Nigeria has reduced in the collection of the revenue due to lack of good governance as well as the unpatriotic act of the tax evaders. And the renowned writer *Toby (1983)* observed the taxpayer spoil as the tax evasion by the application of diverse practice. The practices grind down the moral values of human beings and build up unnecessary pressures in the mind.

### **Strategy**

The study sample size is of one hundred and fifty respondents (i.e. taxpayers both self-employed and salary earners, Chief tax Inspector and assistant tax inspectors of the tax offices from *Biratnagar, Pokhara and Kathmandu*). The questionnaire has been distributed randomly to get the reasons of tax escaping including the possible consequences of tax avoidance on Nepalese economic development. Only three months of time has been used to study from 2017 January 50<sup>th</sup> to 2017 march 30<sup>th</sup>

### **Results and Discussion**

The taxation is one of the key sources of the national economy that is being rolled by the risk of tax avoidance. In addition, it is also considered that the tax avoidance is one of the foremost social problems to stop the development of Nepal. The survey of the opinions of the respondents has been presented in the below table, analyzing with the results:

**Table no.1: Analysis of Opinions on Tax Avoidance**

S. No.	Titles of opinions	No. of Sample that identified it (X)	Mean (M)	(X-M)	(X-M) <sup>2</sup>	%
1	Corruption in public offices	17	10	7	49	100
2	Inadequate tax education awareness	7	10	-3	9	73
3	Misappropriation of tax collection	15	10	5	25	90
4	Ignorance of the tax payer And their civic responsibility	6	10	-4	16	45
5	Inadequate qualified staff engaged by the tax authority	13	10	3	9	80
6	Lack of adequate enforcement for failure to pay	11	10	1	1	85
7	Explosion of taxes	7	10	-3	9	55
8	Loopholes in the tax laws	8	10	-2	4	65
9	Inequitable distribution of income	11	10	1	1	77
10	Absence of 'Quid Pro Quo'	12	10	2	4	90
11	High level of illiteracy	8	10	-2	4	64
12	High tax rate	7	10	-3	9	33
13	insufficient accounting records maintained by traders	9	10	-1	1	67
14	Non-existence of efficient and equitable tax system	8	10	-2	4	78
15	Scarcity of money (poverty)	11	10	1	1	82
	<b>TOTAL</b>	<b>150</b>			<b>146</b>	

(Source: Field Survey, 2017)

As per calculation statistically, the mean is [M] is considered as 10; the standard deviation (s) is calculated as 3.229 and then the distribution is calculated as 0.0216. This results show that there is probabilities of 0.0216 that the mean lies outside the standard deviation. In other way, it is meant that there is a propos of 98% probability that all the independent variables enlisted as causes of tax avoidance which is seemed fully correct. As the probability of its correctness is by far greater than its non-acceptance here so it is concluded that the causes are in fact the reasons of tax evasion. Then after, it is also observed in the above *Table no.1*, there are four key causes of tax avoidance like i. hidden corruption in public office ii. Misuses of collected taxes iii. The absence of 'quid pro quo. Finally, it is observed here that all of these reasons have a percentage of 85% and above. As per discussion minutely, the

situations automatically approve that there are several causes of tax evasion or escaping rolling in Nepalese context, which is to be improved for national economic excellence.

## **Conclusion**

As we understand that the tax escaping is a tremendously ruthless social risk that is chiefly causing a key delay on Nepal's economic excellence. As a result we are clear that if the government employ in overhauling the tax administrative modern systems, the problems of tax evasion will be very minimum or a zero alike. Unless it is clear that the development is like the dream to catch the moon in Nepal. And then it is also essential for force hard penalty for corrupt tax personnel. And it should be made actionable efforts aimed to enforce for tax defaulters. Such penalties and enforcement may aid to create more revenues to the Nepalese government in coming days. Let us be hopeful the measures arranged in this study will be implemented correctly and then, it will go in right way to reduce the problems of tax avoidance to the reasonable extent.

## **Suggestions**

- i. Make use of various means of publicity materials like radio messages, television advertisements, post bills , town.
  - ii. Review and evaluate properly the assessment and the tax collection procedures
  - iii. Encourage to avoid traditional values by using modern values of the taxes. Make easy to understand in local jargons for the tax forms and rules.
- iv. Recruit skilled and qualified personnel
- v. Do train and retrain to the revenue personnel to cope with the situations.
- vi. Introduce the sound and handsome salary package with reasonable commission in case of caught tax avoidance
- vii. Other magnetic actions are to be taken for effectiveness, efficiency and economization of the action:
  - a. setting up of Revenue Courts
  - b. Strengthening the Audit Unit of the tax authority
  - c. providing social amenities
  - d. updating the computerized tax register time to time etc

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