

## **Project Title: Partnership for Collecting Business Tax with Local Government**

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### **Executive Summary**

Collecting tax/levies is always an unpleasant and burdensome job. Municipalities in Nepal are empowered to collect a wide variety of taxes but are unable to do so because the elected council members/ward members/mayors are not ready to take risk of being unpopular. The tax collection job is further made more difficult because the level of services provided by the municipality (services like drains, city cleaning, street lights maintenance, public spaces beautification) is very poor. So, despite the legal framework, municipalities of small towns seemingly face an uphill battle when it comes to tax collection.

Similarly, chambers in smaller cities/towns are always hard-pressed financially. The members who decide the subscription fees at the Annual General Meet always opt to pay only a fraction of the basic annual expenses incurred by the Chamber. And because of the lack of resources only a minimum of services is provided. Consequently, entrepreneurs are not easily lured to enroll as members.

And so, small Chambers are caught in the same vicious cycle as municipalities of small cities and towns.

Narayangarh Chamber of Commerce & Industry (NCCI) came up with an innovative idea to solve this problem and create a win-win situation for both the Chamber and the City Authorities

Among the various taxes levied upon city dwellers, business tax is one of them. But entrepreneurs were simply not paying up because they felt that the tax rates were too stiff or that their tax classification was not fair. NCCI proposed to the town authorities that for a 15% share in the revenue collected would encourage entrepreneurs to register with the municipalities, and would cooperate in identifying the different categories of entrepreneurs and also assist in solving whatever problems that may arise regarding business tax.

After a lot of lobbying, the Chamber and the City Authorities entered into a five-year tax sharing (15:85) agreement. Since then there has been no turning back.

Though the Chamber's initiative was strongly criticized by other Chambers initially, many have today followed suit and entered into contractual agreements with their respective municipalities.

This sort of marriage has not only generated extra income for the Chambers but also created an atmosphere of understanding and cooperation between Chambers and City Authorities.

## **1. Origin of Project Concept:**

The business community was always reluctant to pay the business tax being levied by the local government due to unnecessary hassles being faced during the payment process. The long and time-consuming administrative paperwork and procedures discouraged the business people to voluntarily come forth and pay the tax. The local government was forcefully trying to collect the taxes. The relationship between the two parties was very cold. One side would not listen to what the other side has to say.

In such unfriendly situation the project started working to bring the two parties together for the mutual benefits. It advised the chambers to work closely with the local government and try to create win-win situation for both. It stressed that, for the development of local business, collaborative relationship with the local government is a must and even the unnecessary administrative paperwork and hassles could be minimized with proper dialogue between the two parties. The major collaboration between the chambers and the local government could be helping the local government to collect business tax by the chambers and sharing to collect tax with the chambers by the local government. The project gave this idea to its partner chambers and encouraged them to lobby with the local government for the successful implementation.

Narayangarh CCI took the first initiative. It started lobbying with the municipality and finally in September 2000, NCCI and Bharatpur Municipality (BM) entered into an agreement to share the revenue collected from business tax. It was agreed that NCCI would get 15% of the tax revenue for helping Bharatpur Municipality to collect it.

## **2. Project Category : Best Unconventional Project:**

Chambers in Nepal have been working with their own limited sources of income in limited range of scope. They have only traditional way for generating revenue, subscription fees (which is very nominal) and donation (not a permanent and regular).

This project concept innovated new ways for generating Revenues for the chamber with the principle of partnership approach between Private and Public Sector.

There were no practices to work in partnership between private and public sector. They had preoccupied mindset that they can never work together from this point of view, this project is an innovative and unconventional idea that could facilitate the way of paying tax and avail better service delivery by the collected source of income.

### **3. Result and Influences of Project:**

This project has left broad range of benefit to both chamber and municipalities. Thos can be described as follows:

#### **3.1. Revenue generated for chamber -**

<b>F/Year</b>	<b>Total Revenue of NCCI (US \$)</b>	<b>Revenue from Business Tax (US \$)</b>	<b>%</b>
2000/2001	34,534.11	1,552.82	4.5%
2001/2002	36,428.80	2,815.88	7.7%
2002/2003	37,483.52	2,219.68	6.0%
2003/2004	43,646.51	3,123.76	7.2%
2004/2005 (first installment)	37,483.14		

The above table indicates the Share of Business tax in the total revenue of NCCI, which covered last 4 years trends. With the given figure, we can visualize that Business Tax shows 4.50% of its total revenue in year 2000/2001, similarly 7.73%, 5.92% and 7.16% in year 2001/02, 02/03 and 03/04 respectively. These amount has become a regular source of income, as municipality is ready to extend the duration of agreement for more 5 years.

#### **3.2 Revenue generated to Municipality**

<b>F/Year</b>	<b>Total Revenue of BM (US \$)</b>	<b>Total Revenue from Tax</b>	<b>Revenue from Business Tax (US \$)</b>	<b>Share of Business Tax in total Tax Revenue</b>
2000/2001	661,299.27	33,395.85	8,799.00	31.00%
2001/2002	759,010.63	44,010.18	15,956.65	42.65%
2002/2003	685,396.04	44,444.51	12,578.20	33.30%
2003/2004	757,183.10	60,563.38	17,701.33	34.39%
2004/2005 (first installment)				

As per the available financial information, the scenario shown in the above table indicate that due to co-ordination and co-operation with chamber, revenue from the business tax

comes nearly 34.39% of the total tax revenue (\$ 60,563.38). Before the project, Municipality was able to collect very nominal tax in this heading. Municipality used to collect Business tax from only those, whom come for renewal, recommendation etc.

### **3.3 Opportunity to serve members' interest**

With the project, NCCI has also realized opportunity to serve the members' interest by softening tax load to the members. NCCI was involved while categorizing the business firms. NCCI has taken members' consent in sampling basis through the commodity associations to make the logical categorization. Similarly, heavy discount on the cumulative tax amount and for the weak business firms were provided. These activities have reduced the tax burden to the members.

Before the project, Business tax was collected forcefully. Members were always reluctant to pay the business tax due to unnecessary hassles being faced during the payment process. At present, members feel easy and comfort to pay the tax being collected in civil manner.

### **3.4 Better understanding and working relationship with local authorities**

With the project, a revolutionary change has been experienced in the working relationship with the local authorities. It helped to foster the trust between chamber and authorities. Local Authorities has begun to involve chamber in their policy formulation and periodic planning. NCCI represents in the several working committees of local authorities and vice versa.

### **3.5 Partnership approach to development projects and problem solving**

The project has opened sufficient field for collaboration and partnership approach. NCCI is regularly organizing biannual exhibition (a trade fair for promoting business in this region) in the collaboration with Municipality and District Development Committee (a government authority). Municipality has been joining hand with NCCI in the socio-economy market development of this region. Some of the successful projects are developing Narayani River Bank as a recreational Park, organising regular skill-oriented training for women

entrepreneurs, promoting fresh fruit and vegetable market, operating Bus Terminal (on progress) etc.

#### **4. Applicability of Project:**

This project is applicable for any chamber of town/small city anywhere in the world. NCCI made presentations on its experience and achievement in different forums organized to share experiences and ideas among the BMOs of Nepal. In the earlier forums, NCCI's initiative was collectively criticised. They lamented that the chamber's long-term focus should be on working to abolish the tax provision and the short-term focus on providing tax relief or tax holiday for the business community as far as possible; but NCCI instead, had worked in collaboration with the local government to collect the tax. This made NCCI a black sheep among the chambers. But, with the passage of time, a number of chambers started to realize the rational behind joint collection of business tax. They realized chamber's participation in tax collection helps in reducing the hassles faced by the business community and in having a say in the policy level decisions on tax rate fixation and procedures to follow its realization.

Today, seven BMOs have such arrangement with the local government and more are trying for the same.

<b>Name of Chamber</b>	<b>Name of Municipality</b>	<b>Date of Agreement</b>	<b>Period of validity</b>	<b>Ratio of Revenue Sharing</b>
1 Narayangarch CCI	Bharatpur Municipality	057/5/19 4 Sept, 2000	2001 (B.S 2058/ 062) 5 years	NCCI: 15% B M : 85%
2 Butwal CCI	Butwal Municipality	058/6/5 29 Sept, 2001	2001/2002 ( B.S 058/059) 5 years	BuCCI: 23% B M: 77%
3 Lekhnath CCI	Lekhnath Municipality	059/8/9 25 Nov, 2002	2002/2003 ( B.S 059/060) 2 years	Leknath CCI: 30% LM: 70%
4 Ratnanagar CCI	Ratnanagar Municipality	059/4/24 9 July 2002	2002/2003 ( B.S 059/060) 2 years	RCCI: 20% RM: 80%
5 Dolakha CCI	Vimeshor Municipality	2000	2057 B.S 2 years	DCCI: 15% BM: 85%

6	Makwanpur CCI	Hetauda Municipality	3/29/60 13 July 2003	2003/2004 B.S 2060/2061	1 year	MCCI: 25% HM: 75%
7	Gorkha CCI	Prithvi Narayan Municipality	2004		2 years	GCCI: 30 % PNM: 70 %

**5. Reason for selecting in competition:**

In our idea the project could be an example for small chambers like us. It has also become a model to promote the public-private partnership approach in infrastructure development for the community service delivery. Both, in the private sector and public sector, the project can create positive perception and join them in collaborative idea.

If the project is selected for the competition, the project will be recognized and help to execute multifarious projects in collaboration between private and public sector in order to meet the members' need.

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