

# Municipal own source revenue compliance and its potentiality (A study of financial management performance of Hetauda municipality in Nepal)

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## **Abstract**

*The major portion of own source revenue of Hetauda municipality is tax. The main purposes of this research study are to expose the own sources revenue potentiality and analyze the municipal revenue compliance in Hetauda municipality. Both analytical and descriptive research designs were applied for the analysis of revenue potentiality and its compliance in Damak municipality. Random sampling method was used to select the municipality and same method was replicated to choose the respondents for questionnaire survey. Questionnaire Survey, Focus Group Discussion, and Key Informants Interview tools were used for data collection. Both the taxpayers and municipal policymaking advisors were the respondents of the study. Participants for focus group discussion and key informants for personal interview were*

*selected purposively. Most of the taxpayers (i.e. 85.8 %) have paid municipal tax revenues and out of them, more than 39 percent taxpayers have paid the municipal tax below one thousand rupees per annum. The contribution of own source revenue to total revenue has been fluctuating over the period of ten years. From the view point of municipal policy making advisors, integrated property tax seems more potential source of revenue in comparison to other own sources. Tax compliance is to some extent satisfactory. Tax revenue covers the main segment of municipal own source revenues. From the policymaking advisors' perspective, there is significant correlation (0.669) between service delivery fee and service quality at the one percent level (2-tailed) which indicates that service delivery fee*

*imposed by the municipality for sanitation service is substantially satisfactory.*

**Key Words:** financial management, Municipal revenue compliance, Municipal tax revenue, Own source revenue, performance, Revenue potentiality

### **1. Introduction**

The key tax revenue sources of municipalities are usually integrated property tax, house rent tax, house and land tax, vehicle tax, business/profession/enterprise tax, advertisement tax, and commercial video tax in Nepal. Similarly, the major nontax revenue sources are; municipal property rental charge, service fee/charge, building permit fee, and vehicle parking charge, etc. (LSGA, 1999). Whatever revenue collection method is adopted the municipalities must be transparent and it should be tolerable to the taxpayers (Study Team, 2005). Decision pertaining to the local revenue administration is vital for municipal decision making advisors and decision makers. In general, revenues collected in municipalities are, classified into two categories: internal and external. Internal revenues are also commonly categorized into two types and

they are tax and nontax revenues (Wegner, 2008).

Developmental challenges are felt more at local government sphere, because of its closeness to where people live. However, huge service delivery backlogs require the mobilization of all spheres of government to work together in an integrated manner within the spirit of co-operative government. No single sphere of government can fulfill this role and mandate by working alone in isolation. (Tsatsire, 2008). The Government of Nepal has affirmative feelings on the increasing efficiency in service delivery, but it is hindered by several aspects, including lack of regular monitoring of performance and sound procurement plans, nonperformance of competitive tendering and lack of performance auditing as well. Unnecessary stress of expenditures toward the end of the fiscal year is the main reason of these factors (Ministry of Finance, 2008). For the local government benefit principle of taxation is more appropriate and for the central government ability to pay principle is suitable. But, the ground reality in developing countries, like Nepal, is vast difference. There are only a few tax bases in practice. Consequently, the municipality has become very weak to administer the tax.

Actually, municipal taxes or fees are paid as a charge for the benefits obtained from the services. Therefore, benefit principle becomes workable only when benefit from local services can be approximately identified (Shrestha, 2009). The central government's role is mainly regulatory, i.e., requiring the local government level to follow procurement regulations when purchasing transport services. It also plays a financial role by giving grants to the local government (Hansson, 2010).

Rewarding tax payers, positive peer attitude, offering a prize for best taxpayers and aim of low profits etc. are the encouraging factors of municipal revenue compliance. Likewise, inability to be aware of tax laws or insufficient tax education programmes, high rates of tax and non tax revenues, unfairness or chances of misuse of revenues, and complex tax administration procedures, etc. are the probable factors of noncompliance of revenue (Mumumba Omweri Marti, 2010). Especially in developing countries like Nepal, many researches are performed on taxpayers' attitude towards municipality and the effect of individual interest on tax fraud as well as on other factors influencing tax compliance behavior (James O Alabede, 2011). The fiscal exchange theory of public

finance hints that the existence of government expenditures may encourage compliance and the governments can boost compliance by making available goods or services that municipal people demand more efficiently. According to the political legitimacy theory, it is shaped by the degree to which citizens believe the municipality. In conclusion, we come across some indications that tax knowledge and awareness have a significant impression on revenue compliance point of view (Merima Ali, 2013). Tax source is an important own source revenues of municipalities. Both the benefit principle and ability to pay principle of taxation are the basic philosophies (BSBA, 2013). Revenue compliance is related to taxpayer's perceptions of value for money and fairness in the sub-national revenue system and that appropriate enforcement can be productive (Smoke, 2013). Local revenue collection strategies are varied from municipalities to municipalities. But method of revenue collection unanimously, is an important decision for each municipality. Collection through contractors or public private partnership (PPP) model and direct collection by municipalities themselves are common methods. Whatever may be the methods of revenue collection both

accountability and cost effectiveness are most considerable factors for taxpayers and municipalities themselves as well.

The main aims of the present study are to analyze the municipal own source revenue compliance and to explore its potentiality in Hetauda municipality in Nepal.

## **2. Review of Literature**

### **2.1 Financial Management Performance**

Generally, financial management performance depends on overall management performance of any organization. Qualified personnel and their attitude, working environment, job satisfaction, managerial ability, nature of organization, management of resources, institutional capability etc. are the basic indicators of good management. The implementation of change and performance management, financial management and fiscal decentralization would be impossible if proper qualified staff were not provided to deal with these many complicated issues (Mughees Ahmed, 2012). Apart from accessing money, the effective management of financial resources has been indicated in this empirical study as well as in literature to be one of the primary challenges for municipalities. Municipal financial divisions firstly need to be staffed with the

most suitable people. This means at management level as well as operational level. In addition to having suitable staff, any deviation from sound financial management practices should be avoided and in the case of its occurrence, be addressed as a matter of urgency. The issue of human resources is critical to the success of managing municipalities effectively (Plessis, 2013). Qualified and motivated staff are essential for the management of municipal finance efficiently.

### **2.2 Problems of Revenue Compliance**

Many taxpayers pay little attention to tax matters and may not even view tax evasion as an ethical issue. Similarly, the ethical values of them may be much more tempered by situational requirements than unrealistic anticipation (Philip M.J. Reckers D. L., 1994). Local governments have been able to played important roles in public service delivery and regional development as an integrated part of the overall government, even if not as completely self-contained and self-governing bodies (Kitayama, 2001). In most developing countries, budget execution and accounting processes are either manual or supported by very old and inadequately maintained software applications. This has had toxic effects on the performance of their

municipal expenditure management systems, that are often not adequately appreciated (Khemani, 2006, p. 2). The type of government system appears to matter in the propensity to engage in corruption. The literature makes clear that the causes of corruption tend to be complex, but corruption thrives in the developing world because of the prevalence of weak public institutions, low levels of education attained by the majority of citizens, and the presence of an underdeveloped civil society. (Prier, 2007, p. 76). We have so many anxieties on the subject of the management of municipal finance in Nepal. Nepal government and Udle/GTZ (development partner agency for local governments of Nepal) have clearly stated (MLD, udle/GTZ, 2008) that there is no clear transparency for what the levied taxes are utilized. The taxpayers want to have better services for its taxes, but often they are not delivered by the municipal administration. Inter -agency coordination, conflicting laws, cartelling / syndicating of interest groups, low administrative efficiency, negatively motivated local staff, low tax effort, low effort on transparency (dissemination and mass communication), political instability, non tax compliance, and non- feasible local revenue sources are the

major revenue mobilization problems (Nepal Government, 2010). Lack of well defined mission and comprehensive functional role, lack of proper structure for the development process, and low quality of staff are also the reasons of ineffectiveness of municipal administration (Adams, 2012, pp. 4-13). Regarding the measurement, explanation and control of tax evasion, we still need to fulfill many gaps in our understanding although we might have learned so many matters of finance and taxation. (Alm, 2012). A challenge for a study of taxpayer attitude is a lack of reliable data due to an individual's reluctance to reveal one's own non-compliance. (Merima Ali, 2013, p. 5).

### 2.3. Revenue Compliance in Nepal: Policy Perspective

Pertaining to the noncompliance of municipal tax by the citizen, Nepal government has made the provision under the Section 260 of Nepalese Local Self Governance Act (1999) that if any person does not pay any tax, duty or charge levied or contracted or any other amount due and payable to the local bodies, it shall be recovered by the District Administration Office as government dues. Likewise the government has mentioned the provision under the sub section 2(a &b) and 4 of section 165 of Nepalese Local Self

Governance Act (1999) that if any one does not pay the taxes, fees, charges, tariffs contracted or imposed by the Municipality and any other amount due and payable to it, the municipality may take actions. Besides the provisions stated in the section 59 of Local Bodies Resource Mobilization and Management Manual (2012) issued by the Nepal Government, the local bodies have to fulfill all the conditions of budget authority, circulars and directions issued from the concerned ministries, and the provisions of minimum conditions and performance measures (MCPM) manual (MoFALD, 2012).

The Department of Revenue Investigation of Nepal has set the preventive module for revenue compliance. The preventive strategy includes compliance of the acts and rules, mobilization of flying and emergency squad, adherence of code of conduct of investigation officials, issuance of guidelines and orders, use of information technology etc. (Nepal Government, 2014).

#### 2.4 Municipal Revenue Potentiality

Internal sources of revenue are more stable and consistent than external sources. External sources of revenue are less reliable source of financing because of wide fluctuation in nature. These sources, therefore, should have

the supplementary in municipal financing. Municipalities must be authorized to expand their internal revenue base and modify the tax rate according to local situation so that they can collect adequate revenue to meet their financial needs (Thapa, 2004, p. 4). So far the static revenue collection trend of integrated property tax does not mean that the tax potential is already achieved. For instance, the incorporation of integrated property tax into the total revenue of municipalities was 8% in the FY 2005/06. In addition, governments should strive for high collection rates for all revenues owed and keep the payment-making process simple and easy for citizens (Larson, 2007, p. 34). The Government of Sri Lanka has perceived seriously regarding revenue manuals and revenue surveys to identify information about current and potential revenue sources that can help local officials keep taxes, fees and charges at levels intended by policymakers (Ministry of Local Government and Provincial Councils, 2008, p. 36). Revenue compliance is the support of municipal people or prospective taxpayers to the revenue programs execution. It has always been an important issue in revenue administration for choosing the system of compliance that best serves the



implementation of revenue policy. The knowledge for local governments about operation of an efficient tax administration is essential for local revenue improvement. In deciding the extent of compliance the determinant factor is information collection mechanism, a key consideration is relationship and trust with the taxpayers at the local level and monitoring. Clearly, individual taxpayers' rights appear of greater importance. Potential harassment of taxpayers is also of an anxiety (MLD, 2010). For increasing revenue compliance, municipalities must ensure that their job descriptions, competency requirements, advertisements, selection criteria and appointments are associated with the requirements set out in the regulations. (National Treasury Republic of South Africa, 2011). Municipalities are fully responsible for formulating and executing local or municipal policies and programmes in partnership with other local governance performers and they have substantial roles in bringing local actors together to form a common vision of how to take action to issues raised in a coordinated way (MLD, 2012). Nepalese municipalities still have a revenue potential increase of almost 60%. It is the fact that there is high resistance of

taxpayers and integrated property tax in many municipalities is not full-fledged. Missing revaluations of tax rates and the potential of integrated property tax in Nepal is quite obvious. The high taxpayer resistance is based on the mistrust against the local administration (MLD, udle/GTZ, 2008, p. 9). Tax compliance is obviously critical for effective municipal revenue generation. There is limited empirical evidence, but available analysis indicates that compliance can be improved or deteriorated under decentralization. The effect seems to depend on economic conditions, citizen attitudes about municipalities, and differences in municipal or local bodies' political dynamics, including the willingness and ability of municipalities to administer the tax code (Smoke, 2013 ). So many researches are required for moderating effect of risk preference on relationship between taxpayer's attitude towards tax evasion and his/her compliance behavior to check the consistency of the results produced by this study on this moderator. (James O. Alabedi, 2013).

The main sources of own revenue for municipalities are usually property taxes, business licenses, market fees and various user charges. They have the potential to

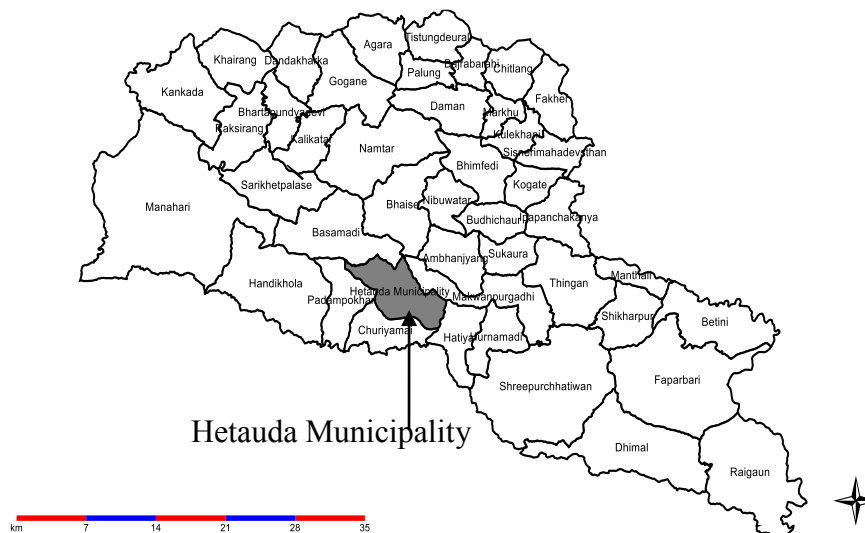
provide substantial and reliable revenue if well administered, but in practice all have serious drawbacks (ICTD, 2013).

### 3. Research Area, Design and Methodology

#### 3.1 Research Area

Hetauda is a municipality and district administrative headquarter of Makawanpur and has been an industrial district for the last

forty years. It is situated in the central southern part of Nepal through which east-west highway from Mechi to Mahakali and north-south road linked with capital city Kathmandu to Raksaul (India) is crossed. As stated in the population monograph report of CBS, Hetauda municipality is inhabited by nearly 84 thousand 6 hundred 71 people (CBS,Nepal, 2014).



( Figure - 1, Map of Makawanpur District, Source: NeKSAPInfo, 2013)

#### 3.2 Research Design and Methodologies

In Nepal, the formation processes of Metropolitan and Sub- metropolitan cities are different than municipalities. Only fifty three municipalities are the population of the study out of fifty eight. Four sub- metropolitan cities and one metropolitan city (Kathmandu) are not able to be representative samples of all the municipalities. So, the study excluded

these big five from the study population. In this study, non-probability sampling technique was applied for the selection of municipality and Hetauda municipality was selected as a sample from the Central Development Region (Hill Ecological Belt) of Nepal. Analytical and descriptive research design has been adopted to analyze the compliance of municipal own source



revenues and to find its potentiality in Hetauda Municipality.

Municipal taxpayers and policy making advisors were the respondents of the study and they were selected in random basis. In total, 34 samples were taken from municipal policy-making advisors including several local political party members, CCI (Chamber of Commerce and Industries) members, civil society members, and others and 134 samples were taken from municipal taxpayers (business, agriculture, and service sectors) in Hetauda municipality.

A 5- point Likert Scale and dichotomous self administered questionnaires were developed. A total of 221 questionnaire forms (170 of taxpayers and 51 of policy making advisors) were used, out of which 189 (148 of taxpayers and 41 of policy making advisors) were effectively returned from the respondents. The successful questionnaire return rate of both the taxpayers and municipal policymaking advisors was 85.52 percent. Sixteen (12 of taxpayers and 4 of policy making advisors) questionnaires were incomplete out of the successful returns. On the basis of first come first response, only 168 questionnaires (134 questionnaires of taxpayers and 34 questionnaires of policy making advisors) were authorized for the

research study purpose out of 173 properly answered questionnaire forms.

A cross sectional method of survey was applied for collection of primary data and secondary information were obtained from Hetauda municipality, MoFALD ( Ministry of Federal Affairs and Local Development), District Development Committee (DDC) Makawanpur, Urban Development Through Local Efforts (udle/GTZ) and Local Bodies' Fiscal Commission of Nepal. Relevant articles, journals, books, as well as published and unpublished materials and performance of the associated organizations working with municipalities were accepted for the macro analysis of the research. For the analysis of secondary data, various analytical tables have been set up and different analytical tools of statistics including SPSS-20 software have been used for the analysis of primary data.

This research study has been limited to Hetauda municipality because of time and cost constraints. So, the results concluded from the primary and secondary data taken from the municipality may not be representative to all classes of municipalities (i.e. Metropolitan and Sub-metropolitan Cities) in Nepal.

#### 4. Results

There were total 168 respondents (134 municipal taxpayers and 34 municipal policy advisors), among them 71.5 percent respondents were male and female respondents were 28.5 percent. Out of 34 municipal policy advisors, thirty one (more than 90%) persons were males. Out of them, 19 respondents (55.90%) were local political party members, 8 respondents (23.52%) were CCI Members, and 7 respondents (20.58%) were civil society members and others. Likewise, more than 57 percent taxpayer respondents were engaged in business activities and about 9 percent taxpayer

respondents were involved in agriculture sector. Similarly, about 34 percent taxpayer respondents were involved in government and non government services. Both types of respondents' views have been collected to analyze the municipal tax compliance and to find out the potentiality of own sources revenue of Damak municipality. On the basis of questionnaire survey conducted in February to May 2014, the scenario of municipal tax compliance, potentiality of revenue, and expressed reasons for non compliance municipal revenues are presented and discussed as follows:

Table: 1 (Comparative Analysis of Five Major Own Source Revenues)

Income Headings	Fiscal Years (Rs. '000)											Average Growth Rate (%)
	2003/004	2004/005	2005/006	2006/007	2007/008	2008/009	2009/010	2010/011	2011/012	2012/013	Total Rs.	
House and Land Tax/IPT	5,644	5,566	8,266	7,727	7,790	9,462	6,873	9906	11433	11912	84577	11.03
Business/Professional Tax	722	1,109	935	921	961	1,226	1,615	2239	2687	3196	15609	19.75
House Rent Tax	142	126	177	260	343	491	230	417	879	1032	4097	34.19
Building Permit fee	1,272	1,888	2,161	2,494	2,509	3,304	4,857	6065	5253	6353	36156	21.11
Service Fee	458	464	771	828	1,033	1,435	1,267	2056	3746	2717	14774	27.08

(Source: Annual Reports of Ten Fiscal Years of Hetauda Municipality Office)

The above table shows the own source revenue collection performance of Hetauda Municipality of past 10 fiscal years. Among them, house rent tax has the highest growth rate (i.e. 34.19%) during the study period. In

the same way, integrated property tax (IPT)/house land tax has lowest (11.03 %) growth rate in the same period. In comparison to the collection amount, the performance of integrated property tax (IPT) is far better than

other tax and nontax revenues. Likewise, building permit fee is the second largest own

revenue source of Hetauda municipality during the study period.

Table: 2 (Administrative Expenditure Performance Analysis)

Expenditure Headings	Fiscal Years (Rs. '000)										Growth Rate (%)
	2003/004	2004/005	2005/006	2006/007	2007/008	2008/009	2009/010	2010/011	2011/012	2012/013	
<b>Salaries</b>	15,422	14,276	14,170	11,449	18,327	18,192	22,629	18223	30312	29070	11.01
<b>Total Admin Expenditure</b>	19993	20529	18758	18798	25843	24211	31550	32646	44792	44176	10.56
<b>Total Expenditure</b>	40196	42752	49389	105956	77371	108700	168614	211481	100784	168026	27.21

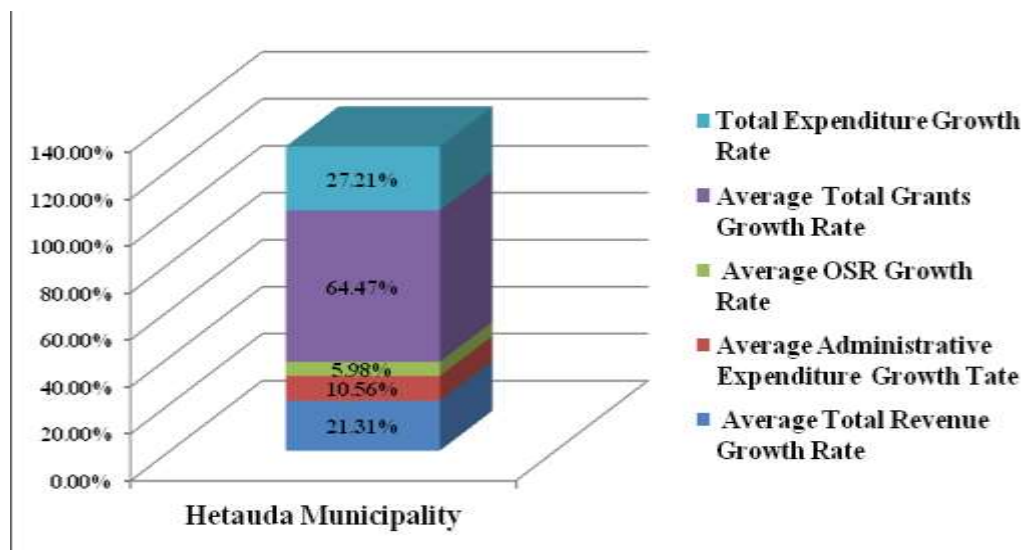
(Source: Annual Reports of Ten Fiscal Years of Hetauda Municipality Office)

The above table (Table: 2) portrays the administrative expenditure performance of Hetauda municipality. In an average, the salary expense has increased 11.01 percent in the study period. Likewise, both the administrative expenditure and total expenditure have increased 10.56 percent and 27.21percent respectively. The growth

rate of salary expenditure indicates that the growth of other administrative expenditure is lower than salary expenditure which indicates that either Hetauda municipality has been suffering from overstaffing or exercising to reduce overheads.

Figure: 1(Financial management performance Analysis)

( Fiscal Year 2003/004 to 2012/013)



(Source: Annual Reports of Ten Fiscal Years of Hetauda Municipality Office)

Above figure (Figure: 1) illustrates the financial management performance of Hetauda municipality in the fiscal year 2003/004 to 2012/013. The average grant receipt performance is more than 64.47 percent, whereas average own source revenue receipt performance is only 5.98 percent. The average total revenue receipt performance and the average administrative performance

are 21.31 percent and 10.56 percent respectively. The performance of administrative expenditure is nearly double than own source revenue collection performance. It signifies that Hetauda municipality should to increase revenue administration power to cope with administrative expenditures.

Table -3 (Annual tax contribution scenario)

Tax Descriptions	No. of Taxpayers	Percent
Tax Not Contributed Taxpayer	19	14.2
Tax Contributed Taxpayers:		
Less than Rs.1000	45	33.6
Rs. 1000 to Rs. 2000	40	29.9
Rs. 2000 to Rs. 5000	17	12.7
Rs. 5000 to Rs. 10000	6	4.5
Above Rs. 10000	7	5.2
<b>Total</b>	<b>134</b>	<b>100</b>

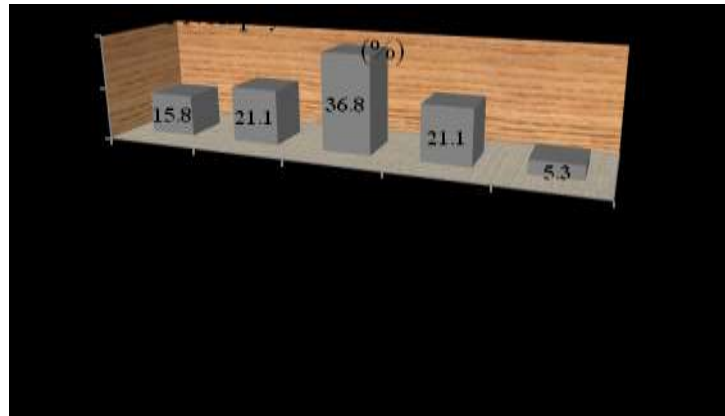
(Sources: Field Survey Report, 2014)

The above table (Table: 3) depicts that 33.6 percent taxpayers of Hetauda municipality have paid municipal taxes below than Rs.1000/- per year. Out of 134 taxpayers, 19 taxpayers have not paid the municipal tax by showing various causes. Besides these spoken or latent causes, the municipal policy making advisors and tax payers have expressed the possible reasons of evasion of tax and non tax revenues.

The following figure (Figure: 2) presents the reasons of municipal tax evasion by the potential taxpayers. Out of 19 non taxpayers, 7 non taxpayers (36.8%) have not paid the tax in Hetauda municipality by showing the cause of lack of information. Furthermore, 4 municipal people (21.1%) have not paid the tax by considering municipal tax is secondary tax. High tax rate, chances of tax rebate in future and inability are the reasons

for tax evasion as expressed by the 8 citizens of Hetauda municipality.

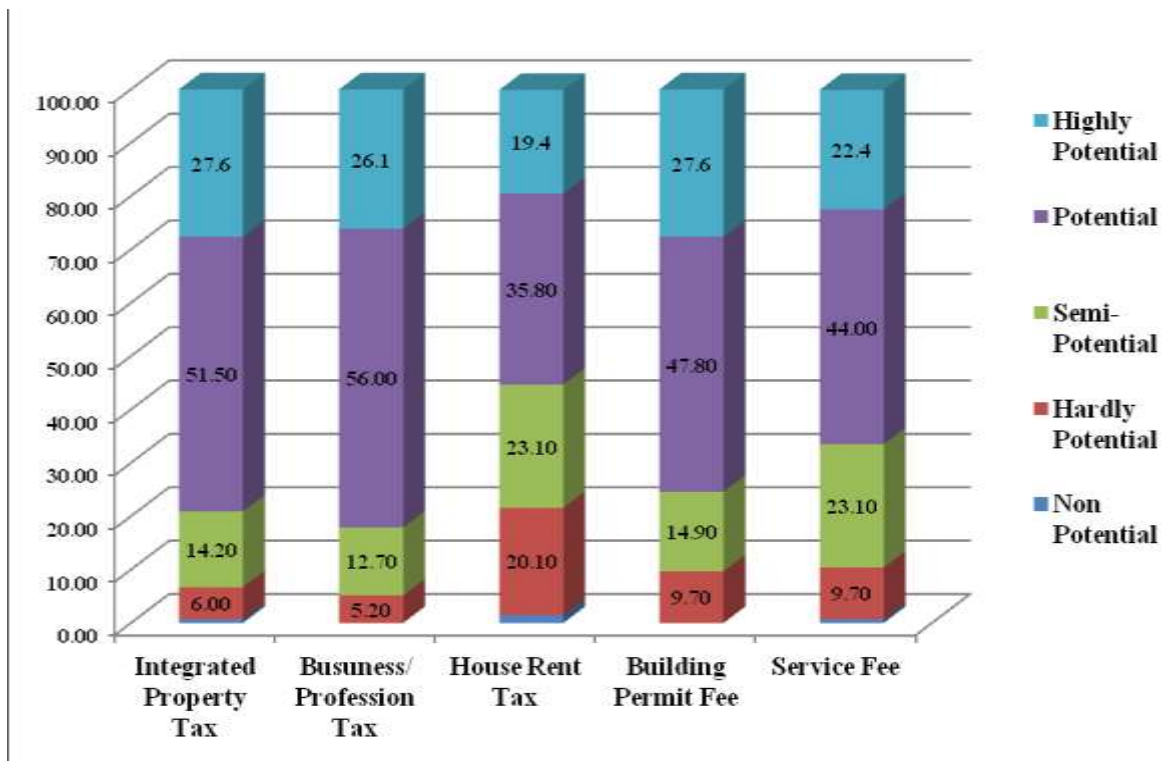
Figure: 2



(Sources: Field Survey Report, 2014)

Figure: 3

Views of Taxpayers on Major Own Source Revenue Potentiality of Hetauda Municipality

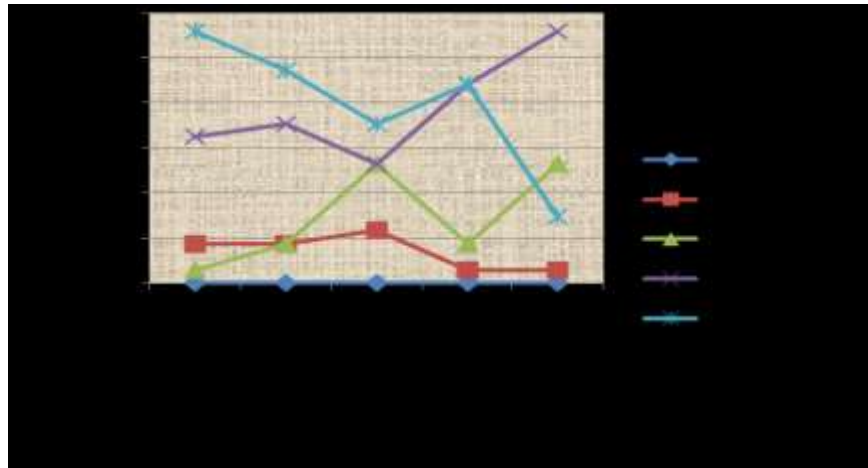


(Sources: Field Survey Report, 2014)

The above figure (Figure: 3) displays the major own source revenue potentiality in Hetauda municipality. All the tax and nontax revenues are potential sources in Hetauda

municipality from the view point of taxpayers. Comparatively, business/profession tax is more potential.

Figure: 4 (Policymakers Views on Potentiality of Major Own Source



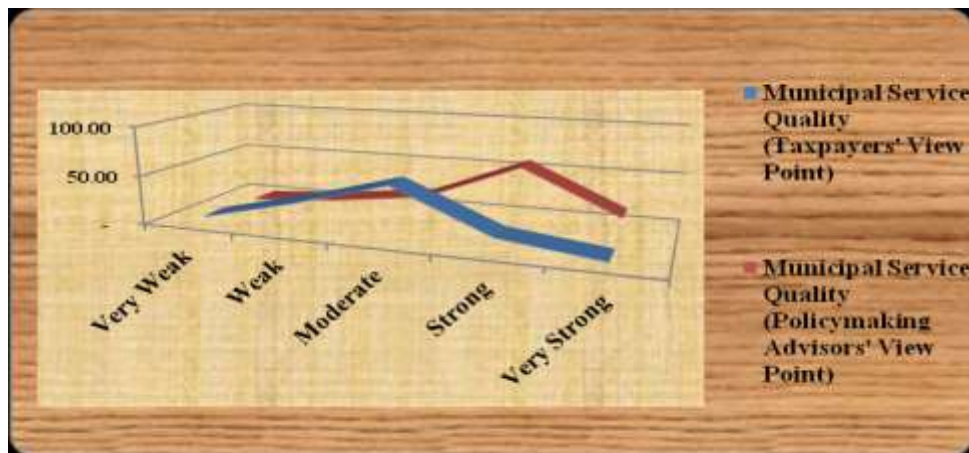
Revenue)

(Sources: Field Survey Report, 2014)

The above figure (Figure: 4) depicts the degree of potentiality of major own sources of revenue from the view point of municipal policy making advisors. Integrated property tax is highly potential revenue source of Hetauda municipality from the policy perspective. Similarly, service fee and building permit fee are potential sources of revenue.

Figure: 5

Service Quality (Comparative Views)



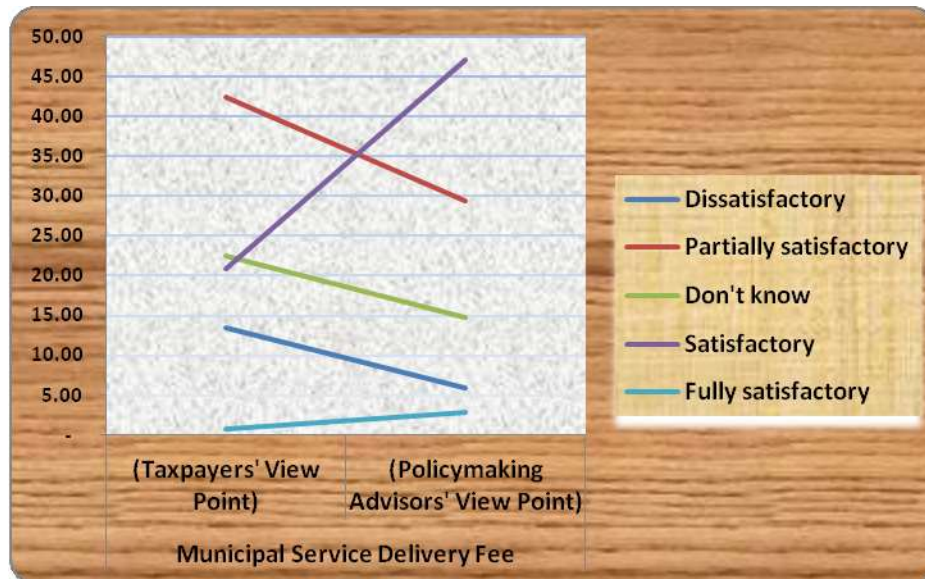
(Source: Field Survey Report, 2014)



The above figure (Figure: 5) shows that the comparative views of taxpayers and municipal policymaking advisors on municipal service quality. From view point taxpayers and municipal policymaking

advisors, municipal service quality is moderate and strong respectively in Hetauda municipality. It indicates that they have not similar observations on municipal service quality.

Figure: 6 ( Comparative Views on Municipal Service Delivery Fee)



(Source: Field Survey Report, 2014)

The above figure (Figure: 6) reveals the integrated views of taxpayers and municipal policymaking advisors on service delivery fees levied by Hetauda municipality. From the view point of taxpayers and municipal policymaking advisors, municipal service delivery fee is partially satisfactory and satisfactory respectively in Hetauda municipality. It signifies that they have different feelings on service delivery fees imposed by the municipality. From the policymaking advisors' perspective, there is

significant correlation (0.669) between service delivery fee and service quality at the one percent level (2-tailed).

### 5. Discussion

The average growth rate of house and land tax/integrated property tax -IPT is 11.03% in the fiscal year 2012/013 to 2003/004. In comparison to the collection amount, the performance of integrated property tax is far better than other tax and nontax revenues. Likewise, building permit fee is the second largest own revenue source of Hetauda

municipality during the study period. Therefore, Hetauda municipality should to set further strategies primarily for the collection of integrated property tax and building permit fee efficiently, and other potential revenue sources.

The growth rate of total administrative expenditures is lowest than the growth rate of salary expenditure (i.e.  $10.56\% < 11.01\%$ ). Likewise, the growth rate of development expenditure (social program and capital expenditure) is higher than the growth rate of administrative expenditures of Hetauda municipality during the study period.

The performance regarding the different types of central grants is more than 64 percent, whereas own source revenue performance is about 6 percent. The average total revenue performance and the average administrative expenditure performance are 21.31 percent and 10.56 percent respectively. According to the report of udle/GTZ, the performance of own source revenue to total revenue of the fiscal year 2006/07 in Hetauda municipality was only 28.54 percent which was much lower than set standard i.e.60 percent (udle/GTZ, 2008). It signifies that Hetauda municipality has to make additional plan to reduce the performance gap.

19 respondents (14.2%), out of 134 have not paid the municipal tax by showing various causes.

Out of 19 non taxpayers, 7 non taxpayers have not paid the tax in Hetauda municipality by showing the cause of lack of information. Furthermore, 4 municipal people have not paid the tax by considering municipal tax is secondary tax. High tax rate, chances of tax rebate in future and inability are the reasons for tax evasion as expressed by the 8 respondents/citizens of Hetauda municipality. The results indicate that individual moral beliefs are highly significant in tax compliance decisions (Philip M.J. Reckers D. L., 1994)

All the tax and nontax revenues are potential sources in Hetauda municipality from the view point of taxpayers. Comparatively, business/ profession tax is more potential. Integrated property tax is highly potential revenue source of Hetauda municipality from the policy perspective. Similarly, service fee and building permit fee are potential sources of revenue. Property tax is at present and will most likely continue to be an important source of revenue in urban councils (Fjeldstad, 2000). House and land tax is the second largest revenue source of all the municipalities of Nepal (Silwal, 2012). It can

be hypothesized that the tax revenues will be spent more in accordance with taxpayers' preference, which in turn increases tax morale (Schneider, 2006). When taxpayers get feedback from their governments in connection with the use to which their taxes are put, their voluntary compliance levels may increase as a result (Adafula, 2013, Sep 19)

From view point taxpayers and municipal policymaking advisors, municipal service quality is moderate and strong respectively. It indicates that they have not similar observations on municipal service quality. Likewise, from view point taxpayers and municipal policymaking advisors, municipal service delivery fee is partially satisfactory and satisfactory respectively in Hetauda municipality. It signifies that they have different feelings on service delivery fees imposed by the municipality.

## **6. Conclusion and Recommendations**

Tax revenue wraps the major portion of own source revenues of Hetauda municipality. This study recaps that the potentiality of municipal own source revenue and its compliance are different matters. About forty percent taxpayers of Hetauda municipality have paid minimum amount of tax ( i.e less

than Rs.1000/- per annum), which indicates that either the tax administration power is low or there is lack of tax education and revenue mobilization plan. To some extent, revenue compliance is satisfactory even though the rate is minimal. The expectation of the most non taxpayers is that there is probability of tax rebate by the municipality in future, which clearly shows that the municipality has worked out such type of policies in the past.

Integrated property tax is highly potential own source revenue and business/enterprise tax, house rent tax, building permit fee and service charge are potential own source revenues of Hetauda municipality. The contribution of tax revenue to the own source revenue and the total revenue is not consistent within the study period. Municipal service quality is moderate and likely to be strong and service delivery fee for municipal services is partially satisfactory in Hetauda municipality from the view point of taxpayers.

On the basis of the above conclusions, the study recommends the following:

- a. Solidarity on potential local revenue collection with revenue mobilization plan and the municipal tax

compliance campaign should be carried out parallel.

- b. Municipal tax and nontax revenue education programme should be launched effectively.
- c. Tax administration power should be enhanced.
- d. Tax rate should be reworked regularly

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