

CONTRIBUTION OF VALUE ADDED TAX IN TOTAL REVENUE OF NEPAL

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master of Business Studies (MBS)

By

Nootan Regmi

Campus Roll No: 622/076

Exam Roll No:23676/20

T.U. Regd. No: 7-2-578-51-2015

Shanker Dev Campus

Group: Account

Kathmandu, Nepal

July, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“Contribution of Value Added Tax in Total Revenue of Nepal”**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

.....

Nootan Regmi

Date:

REPORT OF RESEARCH COMMITTEE

Ms. Nootan Regmi has defended research proposal entitled “**Contribution of Value Added Tax in Total Revenue of Nepal**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Dilliram Bhandari and Romakant Bhattarai submit the dissertation for evaluation and viva-voce examination.

.....
Dr. Dilliram Bhandari
Dissertation Supervisor

Dissertation Proposal Defended Date:

.....

.....
Romakant Bhattarai
Dissertation Supervisor

Dissertation Submitted Date :

.....

.....
Asso. Prof. Dr. Sajeep Kumar Shrestha
Research Department

Dissertation Viva-voce Date:

.....

APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Contribution of Value Added Tax in Total Revenue of Nepal**” presented by Nootan Regmi candidate for the degree of Master of Business Studies (MBS Semester) and conducted the viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

.....
Dr. Dilliram Bhandari
Dissertation Supervisor

.....
Romakant Bhattarai
Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

.....
Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

ACKNOWLEDGMENTS

I would like to forward my deepest gratitude to Dr. Dilliram Bhandari and Romakant Bhattarai of Shanker Dev Campus who supports me with their invaluable scholarly supervision, constructive comments and suggestions that allow me to furnish this thesis report in this final format.

I would like to pay my sincere thanks to Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department and Asso. Prof. Dr. Krishna Prasad Acharya, Campus Chief of Shanker Dev Campus. Besides, I would also like to thank to other respected teachers of Shanker Dev Campus and all the staff of this campus for their help in providing me various kinds of suggestions, information and comments.

Further, my deep regard to known and unknown individual who helped to collect the data at preliminary stage of this dissertation writing.

It is the matter of my immense pleasure to express my deep sense of gratitude and heartfelt respect to my parents for their affection, inspiration and incredible support to precede my academic career.

Nootan Regmi

TABLE OF CONTENTS

<i>Title page</i>	<i>i</i>
<i>Certificate of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>ix</i>
<i>List of Figure</i>	<i>x</i>
<i>Abbreviations</i>	<i>xi</i>
<i>Abstract</i>	<i>xii</i>

CHAPTER-I INTRODUCTION

1.1 Background of the Study	1
1.2 Problem Statement	3
1.3 Objectives of the Study	4
1.4 Rationale of the study	5
1.5 Limitations of the study	5

CHAPTER- II LITERATURE REVIEW

2.1 Conceptual Framework	6
2.1.1 Meaning of Tax	6
2.1.2 Objectives of tax	7
2.1.3 Classification of tax	7
2.1.4 Canon of Taxation	9
2.1.5 Introduction of Value Added Tax (VAT)	11
2.1.6 Origin and evolution of VAT in Nepal	14
2.1.7 Characteristics of Value Added Tax(VAT)	15
2.1.8 Principles of Value Added Tax	15
2.1.9 Contribution of VAT in Total Tax Revenue of Nepal	15
2.1.10 Methods of computing VAT	16
2.1.11Types of VAT	18

2.2. Major Legal Aspect of VAT in Nepal	19
2.2.1 Registration of value added tax	20
2.2.2 Cancellation of the registration	20
2.2.3 Obligation of the VAT registrant	20
2.2.4 Tax credit	21
2.2.5 Accounting for value added tax	22
2.2.6 Tax return	22
2.2.7 Payment of VAT	23
2.2.8 Assessment of VAT	23
2.2.9 Penalties, actions and appeal	24
2.3 Empirical Review	25
2.4 Research Gap	35

CHAPTER-III RESEARCH METHODOLOGY

3.1 Research Design	37
3.2 Population and sample and sampling design	38
3.3 Nature and source of data	38
3.4 Data collection procedure	39
3.5 Data processing and analysis	39
3.6 Data Analysis Tools and Techniques	39
3.7 Conceptual Framework	41
3.8 Reliability and Validity of Data	42

CHAPTER –IV RESULTS AND DISCUSSION

4.1 Presentation and analysis of secondary data.	43
4.1.1 Tax Revenue structure of Nepal	
4.1.2 Share of VAT revenue to gross domestic product (GDP)	43
4.1.3 Contribution of VAT on total revenue and tax revenue	46
4.2 Correlation Analysis	48
4.3 Primary Data Analysis and Presentation	54
4.5.1 Response rate	55
4.5.2 Knowledge about current VAT rate	55
4.5.3 Knowledge about taxpaying procedure	56

4.5.4 Habit of demanding tax invoice after purchased	57
4.5.5 VAT increase the price of the product	57
4.5.6 Views on real taxpayer of VAT	58
4.5.7 Public awareness regarding VAT	59
4.5.8 Difficulty faced by taxpayers while paying VAT	60
4.5.9 Views on weakness of VAT administration	61
4.5.10 Problems in the implementation of VAT	62
4.5.11 VAT collection problem in Dadeldhura	63
4.5.12 Views on making VAT effective	64
4.5.13 Effective way for VAT education	64
4.5.14 Best ways to increase public revenue through VAT	65
4.6 Major Findings	66
4.7 Discussion	70

CHAPTER – V SUMMARY AND CONCLUSION

5.1 Summary	72
5.2 Conclusion	74
5.3 Implications	75

REFERENCES

APPENDIX

LIST OF TABLES

	Page No.
Table 1 Meta Table	29
Table 2 Group of Respondent and size of sample	38
Table 3 Revenue structure in Nepal (Rs in ten millions)	44
Table 4 VAT revenue as percentage of GDP (Rs in ten millions)	45
Table 5 Contribution of VAT on total revenue and tax revenue (Rs in ten millions)	47
Table 6 Analysis of VAT revenue (Rs. in ten millions)	48
Table 7 Correlation between VAT, tax revenue, total revenue and GDP	49
Table 8 Regression Model Summary	50
Table 9 Regression ANOVA	51
Table 10 Regression Coefficients	52
Table 11 Sample Size and Field Survey	54
Table 12 Sample Size and Response Numbers	55
Table 13 Knowledge on Current VAT Rate	55
Table 14 Knowledge about taxpaying procedure	56
Table 15 Habit of demanding tax invoice after purchased	57
Table 16 Increase the price of product on VAT	58
Table 17 Real taxpayer of VAT	59
Table 18 Public awareness regarding VAT	59
Table 19 Taxpayer difficulty while paying VAT	60
Table 20 Views on major weakness of VAT administration	61
Table 21 VAT implementation problems	62
Table 22 Problems in VAT collection in Dadeldhura	63
Table 23 Views on making VAT effective in Dadeldhura	64
Table 24 Effective way for VAT education at remote area	65
Table 25 Best way to increase public revenue through VAT	66

LIST OF FIGURE

Page No.

Figure 3.1 Conceptual framework

41

ABBREVIATIONS

A/C	:	Account
ANOVA	:	Analysis of Variances
CDM	:	Center Department of Management
EU	:	European Union
F/Y	:	Fiscal Year
FNCCI	:	Federation Nepalese Chamber of Commerce & Industry
FNP	;	Fine and Penalty
FTS	:	Fairness of Tax System
GDP	:	Gross Domestic Product
IMF	:	International Monetary Fund (IMF)
IRD	:	Inland Revenue Department
KNW [^]	:	Knowledge
Max	:	Maximum
MBS	:	Master in Business Studies
Min	:	Minimum
N	:	Number of Observation
NRB	:	Nepal Rastra Bank
S.D.	:	Standard Deviation
SDC	:	Shankar Dev Campus
SME	:	Small and Medium Enterprises
SON	:	Social Norms
SPSS	:	Statistical Package for Social Sciences
TAC	:	Tax Compliance
VAT	:	Value Added Tax

Abstracts

In the study, The analysis has been done about contribution of VAT on Total Revenue and GDP of Nepal with VAT effectiveness in remote area like Sudurpaschim province Dadeldhura. First of all , this study investigated the contribution of VAT on total revenue of Nepal from 2071/72 to 2079/80 based on secondary data, which is collected through the economic survey from Ministry of Finance, IRD, NRB and from different valid website. And also secondary data analysis has been done about VAT on the basis of information collected from experts, tax officials, businessmen and consumers through questionnaire. The questions were asked to 120 different individuals through 14 question and responded by 110 personal with effected empirical answer. In this study VAT contribution on total tax revenue is about 32.19%, VAT to GDP ratio is 5.5% to 6.5% and VAT based on imported goods and service having around 60 to 65%. The result shows that VAT contribution significantly to total revenue. The findings also reveal that there is the existence of both positive and strong relationship between VAT and GDP. Empirical as well as theoretical analysis showed that, most of the respondents have also viewed in VAT as best instrument for resource mobilization. Similarly, most of the respondents, (Business person, consumer & Officials), argued that billing problem, IRD office, infrastructure, administrative skilled, under billing as hunting problem. They also discussed about legal provisions, behavior of tax personnel, rate of VAT, need of public awareness programs etc. Hence, Government of Nepal should be search for the way to increase revenue from VAT by mostly supporting with the configurations of networks among all the agencies of government and taxing authorities of the federal level, each province and local bodies in order to meet the growth and to facilitate public services for the country.

Keywords: VAT Revenue, Indirect Tax. VAT, Direct Tax, GDP

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing nation mostly focused on agriculture. The majority of people living in Nepal are impoverished. In order to optimize social and economic welfare, the government of Nepal, being a developing nation, has to carry out a number of tasks in the political, social, and economic domains. In order to reduce poverty and improve infrastructure, social services must be provided (Chapagai, 2021).

The key features of the Nepalese economy include its lack of modern industries and agriculture systems, low income level, unemployment, reliance on remittances, imbalanced wealth and income distribution, and a shortage of trained labor. Thus, taxation is one of the primary ways that the government raises money to address these issues. In addition, the Nepalese government receives funding from a number of sources, including taxes, grants, fines, penalties, and special assessment fees.

The government bears a great deal of duty to the people for economic growth. The government needs to spend a lot of money in order to carry out these obligations. Social, economic, cultural, educational, health, security, and other activities may fall under the purview of government responsibilities. The main tool used by governments to carry out their obligations to individuals and countries is taxation (Chapagai, 2021).

Generally speaking, there are two types of taxes: direct tax and indirect tax. Indirect taxes, such as VAT, sales tax, excise duty, custom duties, and entertainment tax, are imposed on persons or organizations indirectly. Indirect taxes are collected directly by individuals, groups, or governments and include income tax, property tax, and other taxes. It shifts these taxes onto other individuals. The most recent tax system reform, introduced in 1919 AD, is the Value Added Tax (VAT). It is assessed based on the added value of products and services. It is a better form of sales tax. It is imposed at several manufacturing, distribution, and consumer phases. It's also known as a multistage tax. This relates to several stages of the manufacturing and delivery of products and services. Wilhem Van Salmens, a German manufacturer, suggested a tax to replace

multistage sales taxes; however, at the time, Germany did not impose VAT; instead, the multistage sales tax rate was decreased. Value Added Tax (VAT) is a tax levied on the value added by businesses, based on products and services. Shoup (1969) described it as the most recent and likely the last phase in the historical evolution of general sales tax (Dahal, 2020).

The fiscal police identify the many kinds of government revenue sources. In developing nations such as Nepal, indirect taxes, such as Value-Added Tax, are a significant revenue stream for the government. In 1997, Nepal replaced its sales tax income, entertainment tax, hotel tax, and contract tax with the Value Added Tax (VAT). With the introduction of VAT, Nepal's government income stream has grown over time. A nation may attain optimal economic and social wellbeing only if it possesses a substantial reserve fund. Funding sources are more crucial for emerging nations like Nepal, yet they are also unreliable, inconvenient, and detrimental to the country's overall growth. Both internal and foreign financial sources are crucial for the country's development, however internal sources are often preferred above external ones for long-term, sustainable economic growth (Chapagai, 2021).

In Nepal, VAT has a significant impact on income mobilization. The rationale behind the VAT system is that it promotes openness in all forms of transactions, aids in expanding the tax base, and deters tax avoidance. Therefore, it goes without saying that the largest source of income collection for the government is VAT. Both growth and economic development are crucial markers of a nation's actual state in relation to its overall development. Therefore, achieving the rate of economic growth, reducing income disparities, and reducing poverty are a few development measures that have been prioritized by government policy and have received the majority of government attention in developing nations.

The most recent development in the world of taxes is value added tax. Taxes are now the nation's primary source of revenue collection. The Value Added Tax (VAT) is often regarded as the tax reform of the twenty-first century, having been implemented in over 170 nations worldwide. Value-Added Tax (VAT) is a multi-stage tax that is applied on the value added of businesses at different stages of production and distribution. It is levied on commodities and services. It is enforced at various stages based on the value of

the products and services. Value added tax is an indirect tax that is dependent on the customer and is paid on a daily basis for all goods and services.

As of the conclusion of Baisakh in 2081, there were around 760 VAT-registered businesses in Dadeldhura. Dadeldhura is the hub of the hillier, sudurpaschimprovienc region. It is also a popular tourist destination, home to places like Ugrataramandir, which is why Vat is home to several hotels and restaurants. The majority of Nirman firms, hardware dealers, construction firms, lodges, and home stays in the Dadeldhura region are registered on VAT since it is a developing area with new roads, buildings, collages, and other construction-related activity. Thus, the tendency of businesses registering for VAT is rising in the Dadeldhura area, which directly affects the collection of indirect tax income.

The Value Added Tax Act of 1995 was passed by the Nepalese parliament. After the act was approved in 1995, the business community's strong opposition and political unrest caused its implementation to be postponed, ultimately leading to the introduction of the vat regulation in 1996. Complete implementation of VAT at a 10% signal rate was started on November 16, 1997. Vat is a new tax system for Nepal that has replaced sales tax, hotel tax, contract tax, and entertainment tax. It was justified by the government's budget imbalance and the necessity to raise additional funds through an effective tax system. With effect from February 15, 2004, the Nepali government raised VAT from 10% to 13%. In the context of Nepal, there are several issues as well as consumer misinformation regarding the country's indirect taxation structure.

1.2 Problem Statement

South Asian landlocked nation of Nepal suffers from poverty, unemployment, and economic inequality in its economy. Nepal is among the world's poorest nations, notwithstanding its recent progress. It is now ranked 162nd in terms of world GDP per capita at purchasing power parity (ppp) risk and 165th in terms of global nominal GDP per capita. Nepalese people live in a poverty cycle due to their low income, with per capita income (PCI) hovering at \$1,399 USD .According to the economic survey 2079/80, the overall contribution of VAT to GDP is 24.3.

In Nepal, ineffective tax collection is one of the main causes of the budget deficit. Both direct and indirect taxes provide money to the government. One type of indirect tax that is eventually paid by their clients is the VAT. One of the main ways that the government collects money is through the VAT. The primary issue with the VAT adoption has been a lack of public knowledge. It will be a steep learning curve for VAT until a scenario arises when the customer is self-motivated enough to request an invoice. Despite the fact that Nepal has been using VAT for more than 20 years, the system is currently ineffective, and the amount of income raised by VAT falls short of its potential. The majority of the problems and issues surrounding the implementation of VAT have been identified; these include ineffective tax administrations, a lack of professionalism and integrity among business owners, a dearth of taxpayer awareness programs, widespread corruption, and a lack of a culture of issuing and accepting bills at the point of sale and purchase, among other things (Parsai, 2020).

Though there has been much discussion about the system's benefits and drawbacks in relation to the Nepalese economy, the government, business community, and academia have all weighed in on the planned and implemented Value Added Tax (VAT) system. Thus, the way it is implemented determines how effective it is. Through a detailed analysis of the implementation issues in Daledhura district, this study aims to shed light on the issues at hand and provide a valuable framework for future research aimed at achieving successful VAT implementation in Nepal. The following are the study's main research questions:

- i. How much the contribution of VAT in total revenue of Nepal and its relation to GDP in Nepal?
- ii. What is the knowledge about VAT with tax payers in Dadeldhura district?
- iii. What is the major problem for effective implementation of VAT?

1.3 Objectives of the Study

The general objective of the study is to examine sufficient reliability of Nepal VAT system and its impact on economic growth gap. The main objective of the dissertation is contribution of vat and effective implementation in hilly region as a example of core research area is Dadeldhura. The general objective of the study is to examine the various issues relating to VAT and provide useful suggestion. The major objectives of the study are given as follows:

1.4 Rational of the Study

Nepal is one of the world's poorest and least developed nations. General poverty and other severe issues continue to plague the Nepalese economy. In such a scenario, VAT might aid Nepal's economic development by efficiently mobilizing resources. One significant source of income for the Nepalese government is VAT. Both theoretical and practical understanding are needed to apply VAT correctly. The contribution of VAT to Nepal's gross domestic product and overall income is examined in this study. This means that policy makers, researchers, the general public, tax administrators, and taxpayers will all directly benefit from the study. These studies are crucial for those who are curious about policymakers and people yet lack clarity on VAT.

1.5 Limitations of the Study

The task of gathering data is particularly challenging in the context of Nepal. Thus, the scope of this study is quite narrow; it only analyzes a portion of Nepal's tax system. Owing to constraints on time, resources, and materials, a research project cannot undertake this thorough analysis of the tax system. The statistics and information came from the Ministry of Finance's Economic Survey and the IRD of Nepal's report. This study will mostly employ secondary data due to time and research constraints. Therefore, a lot depends on the secondary data. Thus, the following is a summary of the study's main limitation:

- i. This study concentrates about the contribution of VAT in total revenue only in Nepal.
- ii. The secondary data is analysis for result interpretation, So the accuracy of the finding depends on the reliability of available information.
- iii. Primary data have analyzed from respondents of Dadeldhura district only. It may not be sufficient.
- iv. The study has taken secondary data covering the time period of FY 2070/71 to 2079/2080 only.

CHAPTER- II

LITERATURE REVIEW

A review of the existing literature is included in this chapter. Reviews of books, journals, papers, the Ministry of Finance's Inland Revenue Department annual report, an economic assessment, and prior master's theses are all included.

2.1 Conceptual Framework

2.1.1 Meaning of Tax

Taxes are mandatory fees levied by the state. The Latin word "tax are," which meaning to estimate or value, is where the term tax originates. The word "tax" refers to a statutory payment that the government imposes on the general people. It is a kind of financial tax that the government imposes on individuals or legal businesses. It is the required payment made to the state by individuals, households, and businesses. It is a form of money that each and every person of the nation is required by law to pay honestly. It might be imposed on earnings, assets, and activities. Tax is calculated and paid according to legal guidelines. A person may face legal consequences if they refuse to pay their taxes. Therefore, taxes are compulsory contributions that the government imposes rather than voluntary payments or donations. Taxation is a practical way to raise money, and money raised has a direct or indirect impact on people's wellbeing (Dhakal, Bhattarai and Koirala).

Taxes have been defined differently by various people.

Hugh Dalton states that a tax is an obligatory payment levied by a government agency, regardless of the precise nature of the services provided to the taxpayer in exchange, and it is not levied as a fine for any legal infraction.

"Taxes are general contributions of wealth levied upon persons, natural or corporate, to defray expense incurred in conferring common benefits upon residents of states," explains professor Carl Coppenhall.

The following summarizes the main aspects of taxation:

- Rather than being a voluntary gift or donation, taxes are an enforced contribution.
- Payment for taxes is often made in cash.

Tax is imposed on those who own property.

- There are no perks relating to tax payers.
- Tax revenue is used to support societal interests.

- Taxation is levied not as a punishment but as a legal offense.

2.1.2 Objectives of tax

The main goal of taxes is to raise enough money to pay for the massive current and capital expenditures that all levels of government incur. In the modern world, taxes serve as a tool for the government to implement social and economic policies. The following is a list of the primary goals of taxes:

1. In Order to Increase Revenues
2. To Eliminate Regional Differences
3. To Avoid Wealth Concentration
4. To Lessen The Problem Of Unemployment
5. In order to strengthen the economy
6. To Divide Up Wealth for Everyone
7. To Control the Economy

2.1.3 Classification of tax

There are several forms of taxes in the modern tax system. Taxes are often categorized according to their form, nature, purpose, and methods of collection. The division of taxes into direct and indirect taxes is a widely used categorization system. The shifting of the tax burden serves as the basis for this categorization.

i) Direct tax

A direct tax is a type of tax that is paid by the target of the law. It is something that the government directly collects from the taxpayer. Taxpayers must submit their tax returns to the government directly. As a result, direct taxation cannot be changed. Stated differently, the tax burden is borne by the same individual. It is the property and income tax. Income tax, property tax, auto tax, interest tax, gift tax, death tax, and so on are a few examples. "A direct tax is really paid by the person on whom it is legally imposed," stated Dr. Dalton. Here are a few notable instances of direct taxation.

Income tax

According to income tax, chargeable incomes are subtracted from taxable income based on certain conditions to determine taxable income, which is then subject to a basic tax rate. revenue from work, revenue from investments made in businesses, and money from casual gains are some of the main sources of income taxes. When a natural person

deducts permitted deductions from admissible earnings based on their marital status and other personal circumstances, their taxable income is calculated and subject to a basic rate that increases over time.

Capital gain tax

Any capital gain on the sale of an asset is subject to taxation. These resources include real estate, structures, long-term investments, etc. Losses may be adjusted against profits, and items and chattels worth less than a certain amount, automobiles, owner-occupied homes, and National Savings Certificates are exempt.

Corporate tax

business tax is the name for the tax levied on business entities' revenue. Regardless of distribution, all earnings are subject to taxes. When the dividend is paid, some is transferred to the shareholders and some is withheld beforehand.

Capital transfer tax

It is applicable to both legacies and lifetime gifts to pay capital transfer tax.

Other taxes

These include stamp duties (due on financial contracts), property taxes, automobile taxes, land and housing taxes, and so forth. More than two thirds of overall income come from direct taxes. Their biggest asset is that they make sure the most burdensome obligations fall on the widest shoulders by being progressive and evaluating each person's situation separately. Their inherent stabilizer function is further reinforced by their progressive nature.

ii) Indirect tax

The term "indirect taxes" refers to taxes that are initially paid by one individual and then transferred to another. An indirect tax is a type of levied against one party that is either fully or partially funded by another. It is gathered by intermediaries who also handle the tasks related to filing returns and transferring the taxes to the government. Therefore, indirect tax is transferable. Stated differently, the individual bearing and paying the tax is not the same. It is a tax on spending or consumption; examples include export and import duties, VAT, and excise taxes. According to Dr.

Dalton, "One individual is subject to an indirect tax, which is partially or entirely paid for by another. Rather, the tax obligation is shifted by collecting it from clients by including it in the cost of the goods or services. The following are some significant indirect tax sources.

Excise duty

Excise duty is levied on the import and production of products and services that are expressly included in the schedule that is a part of the Excise Duty Act 2058, as per Section 3. The Act's boundaries do not apply to those products or services that are not included in the Schedule.

Customs duty

Customs duty is defined as the customs charge that is payable at rates periodically set out by Nepalese law on exports or imports, as per Section 2(c) of the Custom Duty Act 2019.

Value added tax (VAT)

One of the indirect taxes that serves as the primary subject and emphasis of the current study is value added tax. The major focus of the topic is what VAT is and how it is levied.

Therefore, both direct and indirect taxes are necessary to provide the state with enough money to enhance spending levels. In order to promote social stability, employment, and economic progress, taxes are both required. Indirect taxation is a more effective tax system than direct taxation in developing nations (Dhakal, et al. 2022).

2.1.4 Canon of Taxation

A canon of taxation is a collection of standards, traits, or qualities that determine whether a tax is "good" or not. Prof. Adam Smith was the one who initially formulated the "Canons of taxation." They continue to be largely acknowledged as offering a reliable foundation for evaluating taxes. The following are Smith's four canons, as stated in his book "An Enquiry into the Nature and Causes of Wealth of Nation":

Canon of Equality

According to the canon, a good tax is one that is founded on the equality principle. This notion maintains that taxes should be imposed based on an individual's ability to pay taxes. According to Adam Smith, this idea is as follows:

According to their individual capacities—that is, the amount of money everyone enjoys while protected—every state's citizens should make as much of a contribution to the government as they can.

According to this idea, taxes should be applied in a reasonable and fair manner. Taxes on the wealthy should be greater than those on the impoverished. The tax rate increases with income; conversely, tax rates decrease with income. Tax laws shouldn't treat people differently based on their income level.

Canon of Economy

According to the principle, the nation will profit if there is a surplus of public revenue and the tax collecting costs are lower than the amount of tax collected. The amount that truly ends up in the government treasury and the amount that leaves the taxpayers' pocket shouldn't vary too much. In order to avoid having a negative impact on employment and output, this concept also suggests that taxes should interfere with the productive activities and overall efficiency of the society as little as possible.

Canon of Certainty

According to this canon, taxpayers should have confidence in the date, amount, method, and authority to whom the tax is to be paid. Each taxpayer should also be aware of the location, manner, and mode of payment so that they can plan their expenses appropriately. In general, ambiguity renders the tax code capricious and unjust to the people paying it. No one can take advantage of taxpayers in any manner if the tax is fixed.

Canon of Convenience

The tax need to be imposed and gathered in a way that offers the taxpayers the greatest amount of ease. Public authorities should constantly remember that the least inconvenienced people have while paying taxes is them. For instance, land revenue should be collected during harvest season. Only once they get their paychecks from their employment should the income tax from the salary class be collected. To paraphrase, acknowledges. "All taxes should be imposed at the time and in the way that will most likely make it easiest for the donor to pay them. "This canon greatly contributes to the reduction of tax evasion.

Canon of Diversity

The tax system shouldn't rely just on one income stream. The government shouldn't rely just on one source. Rather than enacting a single tax, the government need to impose many levies. Varying types of people should bear varying portions of the tax burden. The tax burden should not be concentrated on a single set of persons, but rather distributed so as to guarantee efficient tax collection throughout several years.

Canon of Productivity

This canon suggests that the government should use the money it raises from taxes in the economy's productive sectors so that the hard-working citizens who pay taxes may see how their money is being used. This concept states that it is preferable to levy a small number of productive taxes as opposed to a big number of unproductive ones. Both the government and the tax payers face difficulties as a result of these ineffective levies. Taxes must thus be applied consistently in order to prevent discouraging people from being as productive as possible.

Canon of Simplicity

According to this idea, all taxes need to be straightforward and intelligible to the broader population. There should be no difficulties with administration. The process of making a tax payment shouldn't take too long. In the event that the tax system is intricate and sophisticated, taxpayers will need to consult tax professionals in order to fully comprehend its complexities. This will lead to corruption and anomalies.

Canon of Neutrality

The nation's production and distribution aspects shouldn't be negatively impacted by the tax system; instead, it should provide facilities. The government need to levie high taxes on dangerous items while charging either no tax at all or very little tax on necessities so as not to impact overall tax receipts. This economy cannot experience inflation or deflation as a result of the tax.

2.1.5 Introduction of Value Added Tax (VAT)

VAT is collected under a number of headings, including sales, distribution, imports, contract consulting, industries, and other services. The greatest portion of the VAT

collected was, on average, VAT on importers. Quite a little of VAT was still collected at the consumer.

The general consumption tax imposed on products and services is known as value added tax, or VAT. The tax is known as "goods and services tax," or GST, in some countries (Australia, Canada, New Zealand, and Singapore), and as "consumption tax" in Japan. It is a general tax that, in theory, is applicable to all commercial activities involving the production and distribution of goods as well as the distribution of goods and the provision of services. Because the final consumer bears the burden in the end, it is a consumption tax. It doesn't impose fees on businesses. Since it is billed as a proportion of the purchase price, the true tax burden is apparent at every point in the supply and manufacturing chain. Since the tax is collected from a source other than the people who genuinely pay the costs, it is an indirect tax. VAT is typically not applied to exports because it is a tax on consumption.

The VAT is a relatively new topic in Nepal, and not much study has been done on it in relation to the taxation system. This research will serve as a valuable source of further information. In order to improve the research, some master's thesis books, master's degree books, and internet resources about VAT in the Nepalese context were reviewed during this study period. This research was related to "contribution of VAT on revenue generation and implementation problem in Nepal with problem and prospect."

Value-added for a firm is sales value minus all expenditures on goods and services purchased from other firms. Value added is calculated using a self-assessment system and provides the facility of tax credit and tax refund (Dhakal, Bhattarai, Koirala, & Bhattarai, 2019). Value added is an indirect tax, improving and modified form of sales tax that is levied on value of goods and services at each stage in the process of production and distribution chain.

The Ministry of Finance carried out a study on the "Nepalese taxation system and its improvement" in 1995. The study's encouraging findings indicate that there is no chance of introducing taxes in Nepal that would include VAT as a long-term measure of the country's tax reform. The main drivers of the need for tax reform in Nepal are to increase

revenue collection through taxes and create the necessary systems for their implementation.

To sum up, the Value Added Tax (VAT) operates on the principle of a self-assessment system. It is a consumption tax that is broad in scope and applies to all goods and services that are purchased and sold for domestic use and consumption. Therefore, goods intended for export or services rendered to clients overseas are typically exempt from VAT. Other factors that contribute to the effectiveness of the VAT system include proper recordkeeping, business registration, an efficient billing system, and so forth. One major cause of billing system failure is a lack of consumer awareness.

Value Added Tax (VAT) was first implemented in Nepal on November 16, 1997. The former sales tax, contract tax, hotel tax, and entertainment tax have been replaced with VAT. The effective implementation of Value Added Tax (VAT) is anticipated to boost revenue collections and has a strong correlation with GDP. It is also projected to produce income tax and customs charges. Three categories—vat-able goods and services, exempted goods and services, and zero rate goods and services—are used by this Act to categorize goods and services. VAT is a multi-stage, commodity and services-based tax that is imposed on the value added of businesses at various stages of production and distribution. It is currently applied at a single rate (currently 13%, initially 10%) based on the addition of value of goods and services at each stage in the process of supply and delivery of goods and services. The effective collection system, increased efficiency, and less tax evasion are made possible by the current tax system. It is often referred to be the foundation of Nepal's income tax system. In Nepal, VAT has a significant impact on income mobilization. The rationale behind the VAT system is that it promotes openness in all forms of transactions, aids in the creation of a large tax base, and deters tax avoidance. The Land Revenue Tax, which was formerly expected to provide the government with 95% of its revenue, and the Land and Housing Tax, which is Nepal's only property tax, are now collected by elected bodies and local authorities. Since the Nepali government implemented the Value Added Tax (VAT) system, it goes without saying that VAT is one of the main sources of funding for the government. VAT is applicable to supplies made by taxable individuals of goods and services for consideration other than exempt products. Those who are subject to taxes collect VAT. A taxable person is allowed to subtract the input tax from the sales tax that was

collected. In a similar vein, the taxpayer may amend any tax due if the input tax exceeds the tax collected. If there is still tax due after adjustment, the taxpayer may subtract it from the amount owed the next month. The VAT Act includes provisions for tax refunds as well. The VAT Act also lays out the terms and procedures for tax refunds. Thus, the future prospects of VAT are adequate due to its various qualities and contributions. Based on Nepal's historical VAT experiences, a clear image of its upcoming destiny is also painted. (Source: Department of Inland Revenue)

Any individual, partnership, corporation, or other entity that provides taxable goods and services in the course of business is considered a taxable person for VAT purposes; however, if this person's yearly turnover is below a specific threshold, which varies depending on the

The most advantageous aspect of VAT that will aid in preventing tax fraud is that it does not require individuals to charge sales tax in member states (Source: Journals-Recent VAT Data, RabindraTripathi, 2011).

2.1.6 Origin and Evolution of VAT in Nepal

The most recent taxation innovation is the value-added tax (VAT). Dr. Wilhelm V. Siemens created the concept of VAT for the first time in 1919 in Germany. In 1949, Prof. Carl S. Shoup led a tax trip to Japan that advanced the idea of value-added tax. But until 1953, the tax was only a subject of scholarly discussion. France imposed a value-added tax (VAT) on the manufacturing sector in 1954. Nonetheless, the tax was only applied at the wholesale level. Only eight nations, including France, Brazil, Germany, the Netherlands, Sweden, and others, had implemented VAT by the end of the 1960s. Since then, at least one nation has imposed VAT annually, and as of right now, around 170 nations have done so.

Vietnam introduced VAT in 1973, making it the first country in Asia to do so, but it was quickly overturned. VAT was enacted in South Korea in 1977 and is still in effect today. It is the top nation on the Asian continent as a result. Pakistan was the first nation in South Asia to implement VAT in 1990. VAT was introduced in 1992 for Bangladesh and 1995 for Sri Lanka. Modified VAT, or MOD-VAT, was first implemented in India in 1986 for manufacturers. There, full value-added taxation was instituted on April 1, 2003.

In Nepal, the idea of VAT was first presented in the early 1990s. The government of Nepal stated in the ninth plan that it intended to implement VAT. The Finance Minister then announced that starting with the fiscal year 1992–1993, a two-tier sales tax structure would be the foundation for adopting VAT. In 1993, a VAT task group was established with funding support from USAID to begin the required preparations for the implementation of VAT. The proposed VAT legislation was created by the VAT task team.

In 1995, the Nepalese parliament passed the "Value Added Tax Act, 1995 (2052)". The VAT rule was subsequently created in 1996. Despite being enacted in 1995, the Act's implementation was put off because of political unrest and fierce resistance from the corporate community. Effective November 16, 1997, a single 10% VAT rate was completely adopted (Mangsir 2054). Sales tax, lodging tax, contract tax, and entertainment tax have all been replaced by it. It is intended to bring in the same amount of money as the four levies it replaced. Nepal has a new tax system called VAT. The justification for Value Added Tax (VAT) stems from the government's economic imbalances and the necessity to raise additional income through an effective tax system. The Nepali government raised the value-added tax (VAT) to 13% as of Magh 1, 2061 B.S. (Koirala, et al. 2022).

2.1.7 Characteristics of Value Added Tax(VAT)

The main characteristics of value added Tax is given below:

- It's an example of an indirect tax.
- The value added principle forms its basis.
- It serves as an alternative to sales tax, hotel tax, entertainment tax, and contract tax.
- It offers tax refunds and credits and is based on a self-assessment method.
- It has a catch-up impact and prevents the sales tax's cascading effect.

2.1.8 Principles of Value Added Tax

The formulation of goals, policies, rules & regulations, and implementation instruments is guided by principles. The following are some guidelines for creating rules:

- a) The idea of broadening the tax base: since VAT is applied at every step of production and sales, it is applicable to all aspects of corporate operations.

b) The destination principle: In accordance with this concept, which is based on international standards, imports are taxed equally and at the same rate as local supply, while exports are examples of receiving a refund of input tax.

b) Neutrality principle: The term "neutrality" denotes that it is applied uniformly to all taxpayers. In the tax context, discrimination does not exist.

d) Transparency principle: VAT is levied on the discrepancies between the purchase and sales book values. As a result, the likelihood of tax avoidance is reduced.

e) The zero rating principle: According to this theory, taxes are only levied at the point of use of products or services. It needs to be applied at the production site, though.

There is no export tax on products or services as they are exclusively intended for domestic use.

2.1.9 Methods of Computing VAT

The tax on value added at each link in the manufacturing and distribution chain is what the VAT is by definition. (Dhakal, et al. 2022). In turn, there are two different approaches to define the value contributed. First, value added is equal to the total of laborers' pay and owners of capital and land's earnings from production components. Second, value may be expressed as the simple difference between input costs and output values. The following three main options for calculating the VAT duty result from the two definitions of value added.

I) Addition method

Using this approach, the tax base is calculated by adding the firm's revenue. Stated differently, the tax base is calculated by multiplying the amount paid by the company by the factor of production that is used to produce the good. like pay, interest, rent, and earnings. This approach is suitable for the VAT revenue type that bases incentives on all relevant parameters. $VAT = F(W+I+R_1+P)$.

Where,

F = Functional Relationship

W = Wages, I = Interest, R_1 = Rent, P = profit

The formula indicates that VAT amount has direct relationship with the payment Wages, Interest, Rent & Profit. VAT increase with increase on these factors and vice-versa.

II) Subtraction Method

Value added is calculated using this approach by deducting the cost of materials from sales revenues, which yields net turnover. As a result, the amount—which is obtained by deducting purchases from sales—is subject to VAT. This approach is suitable for the VAT consumption variation. At any given point in time, the tax burden is equal to the tax rate times the tax base, or value added, which is calculated as the difference between the input and output values.

$$\text{VAT} = F (S - P)$$

$$= F (V)$$

Where,

F = Functional relationship

S = Output (Sales Value)

P = Input (Purchase Value)

V = Value added

VAT and value added are directly related under this approach. The consumption variation of VAT may be calculated using this approach. VAT using the method of subtraction would be as follows:

If rate of VAT is 13% at each stage (under subtraction method)

Distribution stage	Value of goods each stage	Value added of product at each stage	VAT under subtraction Method
Farmer	1000	1000	130
Manufacturer	1500	500	65
Wholesaler	2000	500	65
Retailer	3000	1000	130
Total value	3000	3000	390

III) Tax Credit Method

Tax is levied on the entire sales value under this system, and taxpayers are permitted to pass on to their suppliers the taxes that the suppliers have already paid, deducting it from their gross tax liability. Under this technique, tax on purchases is deducted from the tax

on sales, as opposed to the subtraction method, which deducts purchases from sales and imposes tax on the difference. The invoicing technique is another name for this approach.

It appears that there are benefits to the tax credit approach over the addition and subtraction procedures. The addition approach encounters the same issues with income taxation since it depends on precise data on salaries and profits, which is difficult to come by in developing nations. However, in the case of a VAT with a single rate structure, the subtraction technique would need an explicit assessment of the tax base, which would lead to significant issues in the case of a multiple rate. Assuming that the tax rates for output and input are O and I for output and input, respectively,

$$\text{VAT} = F (t_1 * O - t_2 * I)$$

It suggests a direct relationship between VAT and O and a relationship between VAT and I that is indirect.

If the tax credit technique is used and the VAT rate is 13% at each stage,

Distribution stage	Value of goods each stage	Value added at each stage	VAT
Farmer	1000	1000	130-0= 130
Manufacturer	1500	500	195-130 = 65
Wholesaler	2000	500	260-195 = 65
Retailer	3000	1000	390-260 = 130
Total value	3000	3000	390

2.1.1 Types of VAT

Howell (1995) asserts that the tax base is dependent on a variety of variables, including the number of tax rates, the sectors and individuals subject to the tax, the number of exemptions, zero rates, etc. A minimum tax range, limited exemptions, and the lowest feasible tax rate are all desired. The three forms of VAT are categorized as follows based on the tax base:

- i. **Gross product variant (P-VAT)**

Except for intermediate products, all final goods and services are subject to a GNP-styled VAT. Investment expenses are included in the tax base; depreciation and capital expensing are not permitted. This particular VAT type has the benefit of having a sizable base. The main drawback is that the whole tax burden would fall on the investment products.

$$\begin{aligned}\text{Gross National Product Type} &= \text{Gross Investment} + \text{Consumption} \\ &= \text{Gross value of output} - \text{all current inputs}\end{aligned}$$

ii. Income variant (I-VAT)

Depreciation and the value of intermediate inputs are not included in the basis for this form of VAT. As a result, the base is comparable to that of income taxes.

$$\begin{aligned}\text{Income Type} &= \text{Gross National Product} - \text{Depreciation} \\ &= \text{Net Investment} + \\ &\quad \text{Consumption}\end{aligned}$$

iii. Consumption variant (C-VAT)

The gross value of goods and services is not adjusted for the value of investment items or intermediate inputs in the base. The specified basis closely resembles the base for retail sales taxes.

$$\begin{aligned}\text{Consumption Type} &= \text{Gross National Product} - \text{Gross Investment} \\ &= \text{Total Consumption Expenditure}\end{aligned}$$

While most nations implement consumption-based VAT, they also propose different methods of crediting capital assets. Countries that provide quick and complete credit of capital goods taxes are rare. Generally, they enable the residual credit to be carried forward to balance the tax in following years (this is a frequent practice in Latin America, for example) and restrict the credit in a given period to the amount of the VAT paid on production. However, some nations selectively exclude capital goods purchases from paying VAT right away as part of a larger package of financial incentives for key businesses.

2.2 Major Legal Aspect of VAT in Nepal

In the context of Nepal, the main legal element and associated value-added tax system are as follows:

2.2.1 Registration of value Added Tax

VAT is a legal topic, at least for the registrant. Any business that wants to register must have more than \$5 million in taxable transactions per year.

Small vendors with yearly sales of less than \$5 million can have voluntarily registered their company. The businesses participate in taxable transactions at any turnover, with the exception of the exempt goods specified in Schedule 1 of the VAT Act of 2052.

2.2.2 Cancellation of the Registration

If a person has been registered for the entire fiscal year and their total taxable sales for the last four calendar quarters have not exceeded 5 million rupees, their VAT registration may be cancelled. Alternatively, it may be cancelled for people who have ceased to engage in any commercial activity due to receivership, bankruptcy, or business closure.

The following circumstances, in particular, allow for the cancellation of VAT registration (VAT Act, 2052):

- a. The registered individual stops making taxable transactions.
- B. Registration gone wrong.
- C. death of the individual owner, in the event that a partner dies and the partnership business dissolves.
- d. If the registered individual files no returns for a continuous period of one year or does not file any returns.
- E. closure, sale, or discontinuation of the enterprise.

In any of the aforementioned situations, a tax officer may terminate registration.

2.2.3 Obligation of the VAT registrant

Act as an agent of the government in order to collect VAT. The following are some duties associated with value added tax: -

1. Within the 25th day of the subsequent month, submit the VAT return and pay the amount of collecting VAT.
2. For VAT purposes, keep separate books for purchases and sales.
3. Save their VAT record for a half-decade.
4. Notify the Inland Revenue office within twenty-five days of any changes to the business, such as a new phone number, address, or partnership structure.
5. Give their consumer the tax invoice.

6. Place their registration certificate in a visible and simply readable location for consumers to view.

7. Permit the tax officer to visit the company to go at the inventory and business documents.

For the most part, businesses just need to make small adjustments to their record keeping. To finish his VAT return, a taxpayer must make sure that his books and records include:

1. The total amount of sales tax paid
2. The quantity of VAT gathered from sales
3. A way to identify transactions that are taxable and those that are not
4. Evidence—if any—that products were shipped.

The majority of taxpayers maintain purchase, sales, and VAT account records.

The following details have to be included in the purchases and sales book.

1. The number on the invoice
2. The date of the invoice
3. The buy book contains the supplier's name and PAN number.
4. The PAN number and client name in the sales book.
5. The amount subject to taxation, and
6. The VAT amount.

2.2.4 Tax Credit

The primary component of VAT is the tax credit system, which is a value-added tax. Since this idea is implemented through the credit mechanism, the taxpayer should be able to claim a deduction for any entry taxes paid in relation to the transaction. A registered tax payer is required by law to collect sales tax at the set rate, subtract import and purchase VAT from the sales tax, and then submit just the residual amount to the government. Tax credit is the practice of subtracting the tax paid on purchases from the tax received on sales.

1. When input VAT is paid at the time of purchase and is directly tied to output that is appealing to VAT, full tax credit is granted.
2. When purchase VAT is paid, a proportionate tax credit is given based on the sales amount that cannot be explicitly allocated to either the VAT-exempted or VAT-attractive production.

3. When purchase-related input is directly tied to output that is exempt from VAT, no tax credit is given.

2.2.5 Accounting for Value Added Tax

It is mandatory for vat registrants to have a buy and sales book in which they must record all sales and purchases. They have to set up a VAT account as well.

1. Purchase book

For VAT purposes, a VAT registrant must keep a record of their company purchases. Purchases must be documented with an invoice. The amount of taxable imports and purchases, as well as the tax paid on imports, must be totaled by the VAT registrant at the conclusion of each accounting period.

2. Sales book

In a similar vein, VAT registrants must keep a record of their sales for VAT purposes. Sales must be reported according to invoice basis, just like purchases. VAT registrants must total their taxable and tax-exempt sales as well as the tax collected on those sales at the conclusion of each accounting quarter. They must then figure out how much input tax they are entitled to for the tax period if they make both taxable and exempt purchases and sales.

3. VAT account

The VAT account must be kept up to date by the VAT registrant. This monthly breakdown of taxable sales and purchases includes VAT that was levied on sales and paid at the time of purchase.

4. Others

With previous permission from the VAT administration, a VAT registrant may keep their business account up to date on a computer. The majority of VAT registrants make their accounts accessible to the VAT inspector at all reasonable times for inspection. The VAT officer may demand their production at any location. The account may be taken possession of at any reasonable moment, and they may be removed, copied, or taken into custody if needed. Usually, they will be produced at the premises of the VAT registrant.

2.2.6 Tax Return

Every registered person will be accountable for determining the amount of tax due on each taxable transaction. It is a self-assessment tax in which the taxpayer serves as the government's agent or representative. A tax return is a statement that is prepared in the required format by a registered person for every tax period. It includes:

1. Sales that are both tax-free and taxable
2. Sales that are both tax-free and taxable
3. Tax collected at the time of purchase
4. tax adjustment for the prior period
5. Over/underpayment of taxes

Each registered individual has 25 days after the end of each tax month to file their VAT return.

2.2.7 Payment of VAT

With the exception of those listed in Schedules 1 and 2 of the VAT Act of 2052, every registered person is required to collect tax on the supply of goods and services. the tax levied at the act's specified rate on taxable value. VAT due on tax period equals VAT collection on sales during the VAT period - eligible input tax credit for same period. The amount of VAT payable is determined by subtracting the VAT credit from the Vat collected on sales effected during the same period. Every registered person is required to deposit the amount of VAT payment to the government revenue account within 25 days after the end of each tax period, with regard to the VAT payable for that particular tax period.

2.2.8 Assessment of VAT

A self-assessment method is used for value added tax. The tax payer bears primary responsibility for tax assessment. According to the VAT Act, the tax officer may adjust the tax amount if someone intentionally submits tax returns with an understated tax due.

a. Self-assessment

Each registered taxpayer is required to calculate his own tax due and file a tax return for each tax period. A registered individual has 25 days from the end of the tax period to file their VAT return. The can be obtained in documented form or electronically, a process

known as an e-return. The self-assessment is considered to have been completed when such a return is filed with the tax office.

b. Assessment by tax officer

The legislation gives the tax officer the authority to collect taxes in cases where a taxpayer files a false, incomplete, or inaccurate tax return, or does not file a tax return at all, indicates a lower tax liability than the true tax due, or transacts without registering. The Act lists a number of requirements that must be met before a tax officer can assess taxes.

c. Administrative review

Taxpayers have the option to request an administrative review if they are dissatisfied with the tax assessment decision made by the tax officer. Administrative review is the process by which the department's tax officer's assessment is examined, ensuring that it was completed in accordance with the law.

Within 30 days of receiving the decision, a taxpayer may request a review from the director of IRD if they are unhappy with the tax assessment rendered by the tax officer. If IRD does not provide a ruling within 60 days of the application being filed, the taxpayer may file an appeal with the revenue tribunal.

2.2.9 Penalties, Actions and Appeal

The following actions constitute crimes, and in accordance with the VAT Act of 2052, fines and penalties will be applied.

- 1.transacting at the table without registering.
- 2.not displaying the registration certificate in a visible location on the company property.
- 3.not applying the registration or certificate in accordance with the recommended methods.
- 4.not providing a tax invoice and shipping products without one in tow.
- 5.not submitting tax returns within the allotted time
- 6.The taxpayer does not keep a valid VAT account as required.
- 7.collecting VAT from someone who isn't legally registered.
- 8.any sort of transaction forgery that is done in order to evade taxes.

2.3 Empirical Review

Feria, and Artur (2024) designing a progressive vat describe research in progress for IMF Working Papers. The analysis shows that, the biggest challenge in our modelling stems from the limited reliability of income data in household surveys. The inherent difficulty to measure income is especially problematic for lowest deciles where, as is common in developing countries, most income is non-wage and prone to underreporting.

Kunwar (2023) identify the impact of VAT on revenue generation in Nepal. Employed quantitative tools and econometric methods to analyses the secondary data and also this investigation made use of time series analysis. The analysis shows that, the impact of VAT on government revenue generation in Nepal This research shows significant results for LNVAT, LNRCE, LNRIT, LNROT, and LNRNT, which is desired. These factors have had a large and favourable influence on RTR in Nepal

Alavuotunki (2023) investigated how the implementation of the value-added tax affected inequality and government revenues. We offer instrumental variable analyses as well as traditional country fixed effect regressions, in which the adoption of VAT is instrumented using past VAT system values from nearby nations. Unlike previous research, the findings show that the VAT has not had a favorable impact on revenue. The findings show that while consumption disparity has not changed, income-based inequality has grown as a result of the VAT's implementation.

Paudel (2023) to analysis the VAT collection efficiency of Nepal Secondary data, published by Government of Nepal and authorized. The finding shows that the VAT collection efficiency of a country is influence by various factors such factors as tax rate, threshold, zero rate of tax and over the import of goods and service from open market etc

Koirala (2022) to analysis performance of Value Added Tax System in Nepal. Descriptive research design to analyze the VAT revenue with using both primary and secondary data. The VAT performance has been satisfactory in terms of revenue collection and VAT performance showed positive sign with efficiency ratios VAT has been heavily dependent upon import, and domestic transaction has been around 25 percent to 41 percent.

Chapagain (2022) examined, using empirical data, how the VAT contributed to Nepal's GDP between 2001 and 2019. Time series macroeconomic data on VAT and GDP were employed to achieve this goal. The Ministry of Finance's economic survey was used to gather data. The techniques of Ordinary Least Square were used to examine the proposed theories. The outcome demonstrates that VAT makes a major contribution to GDP. The results show that there is a significant and positive correlation between GDP and VAT. Therefore, in order to meet growth and support public services for the nation, the government of Nepal should look for ways to increase VAT revenue, primarily by assisting with network configurations among all federal agencies, provincial governments, and local bodies.

Acharya (2021) investigated the possibility that differences in tax efforts across different categories might have a favorable effect on economic growth in a typical developing nation. We examine 44 years (1975–2018) of time series data on growth and budgetary factors, using Nepal as our example. We come to the conclusion that Nepal's tax to GDP ratio is already at its ideal level. It would be counterproductive to make further attempts to raise tax revenue; instead, other structural steps should be taken to increase GDP growth. The GDP is not significantly impacted positively by the implementation of various revenue replacement scenarios; on the other hand, the GDP is not significantly impacted favorably by lowering excise duty contributions and substituting income tax contributions. It speaks to the necessity of safeguarding Nepal's emerging industries at this point in the country's tiny developing economy's fiscal-growth debate.

Dahal (2020) To analysis the trend of VAT and to examine correlation between VAT, total revenue and total tax revenue in Nepal. Based on secondary data analysis which are incorporate from the various site like government and non- government website. The analysis shows that, VAT has significant contribution in government of Nepal and positive correlation between VAT, total revenue and total tax revenue in Nepal.

Neupane (2020) examined the factors influencing Nepalese commercial banks' profitability were investigated by descriptive statistics are used in this study to explain the factors that influence Nepalese banks' profitability. Furthermore, by measuring the correlation coefficient, the degree of correlation between various profitability measures

and its drivers has been evaluated. In conclusion, this research has employed a panel data regression model (comprising of a Fixed Effect Model and a Random Effect Model) to examine the factors that influence the profitability of commercial banks in Nepal. The analysis shows that the concentration ratio, GDP growth, inflation, exchange rate, and banking sector development have a significant negative impact on the profitability of Nepalese commercial banks as measured by ROA. In contrast, internal factors such as bank size, capital base, deposit, loan, off-balance sheet activities, and branch count have no significant impact. Another measure of bank profitability, NIM is primarily impacted by the rate of inflation, the total number of branches, and capital adequacy.

Alhussain (2020) measured changes in the banks' total assets, total liabilities, customer deposits, retained earnings, total operating income, total operating expenses, and net operating income before and after the implementation of value-added tax (VAT) in order to determine the impact of the tax on Saudi banks. The fourth quarter of 2017 (before to the introduction of VAT) and the first and second quarters of 2018 (after the VAT implementation) were the study's target periods. The analysis discovered that with the introduction of VAT, there was a considerable decrease in retained earnings and total operating expenditures, along with a little fall in total assets, total liabilities, client deposits, and current accounts. However, the analysis discovered that with the adoption of the value-added tax, there was a notable rise in net operating income and a little increase in overall operating income. Furthermore, the analysis discovered that while retained profits before and after value-added tax were statistically significantly different, total assets, total liabilities, customer deposits, current accounts, total operating income, total operating expenses, and net operating income were not statistically significantly different.

Gnawali (2020) is a component of tax changes in developing nations like Nepal that increase income and promote sustainable economic growth. Since value-added taxation (VAT) was a novel idea in Nepal, a thorough taxpayer education campaign was initiated to educate lawmakers, company owners, industrialists, consumers, and other members of the public on the different facets of VAT. Descriptive and survey research designs were utilized in the study. Data were gathered by means of questionnaires. The right analysis was made with the assistance of statistical techniques. It is shown that over 88% of participants possess sufficient knowledge to request a tax invoice following the purchase

of goods or services. To verify the legitimacy of merchants, the majority of them request tax invoices. The effectiveness of VAT is contingent upon the public's awareness, the integrity, trust, and morality of tax authorities, as well as the business community. Action and willpower are required. Additionally, it is discovered that tax education and taxpayer awareness programs are key factors in Nepal's increased VAT collection.

Das (2017), the goal of the GST is to unify many levies into a single, unified tax, thus streamlining India's indirect tax system. The only indirect tax that directly links every sector of the Indian economy is the Goods and Services Tax (GST), which fosters the development of a single, unified market and accelerates national economic progress. France is the country that has introduced GST after more than 160 other nations worldwide. In 1999, Atal Bihari Vajpayee introduced the concept of Goods and Services Tax (GST) in India. Asim Das Gupta, the finance minister of West Bengal at the time, led the formation of a committee. It was intended to go into effect on April 1st, 2010, under the direction of P Chidambaram, the UPA government's finance minister at the time. However, political squabbles and competing stakeholder interests prevented it from happening. The Lok Sabha approved the GST constitutional amendment bill in May 2016, and India's finance minister, Arun Jaitley, set a deadline of April 1, 2017, to begin implementing the tax. There is a lot of opposition to its execution, though. This essay focuses on the implementation issues that India has experienced and provides an outline of the Goods and Services Tax (GST) idea, benefits, and features.

The "Value Added Tax in Nepal, Administrative and Policy" study conducted by Khanal (2014) aimed to enhance the sales tax system. The substitution of value-added tax (VAT) for sales tax would guarantee a minimum amount of "gain." For this reason, switching to VAT would be "better," but not the best course of action. This is because the purportedly exaggerated theoretical benefits of the VAT would be rendered meaningless in practice since there isn't a "good" environment in which the tax can be applied. Therefore, the application of a VAT in Nepal is one of the main implementation challenges. The applicability concerns take on more significance and necessitate a thorough analysis and solution for Nepal's VAT adoption.

Koirala (2010) the performance of VAT in Nepal with critical assessment and its performance. Qualitative and quantitative methods with secondary data from IRD ,

economic survey etc The finding shows that the improving compliance behavior of tax payer has been a utopia in Nepal. The registered tax payer are not effective and in stimentaial to the tax generation

Table 1

Meta Table

Author(s)	Objectives	Methodology	Findings
Artur Swistak (2024)	Designing a Progressive VAT	Describe research in progress for IMF Working Papers.	The analysis shows that, the biggest challenge in our modelling stems from the limited reliability of income data in household surveys. The inherent difficulty to measure income is especially problematic for lowest deciles where, as is common in developing countries, most income is non-wage and prone to underreporting.
Kunwar (2023)	Identify the impact of VAT on revenue generation in Nepal	Employed quantitative tools and econometric methods to analyses the secondary data and also this investigation made use of time series analysis	The analysis shows that, the impact of VAT on government revenue generation in Nepal This research shows significant results for LNVAT, LNRCE, LNRIT, LNROT, and LNRNT, which is desired. these factors have had a large and favourable influence on RTR in Nepal The findings show that while consumption disparity has not changed, income-based inequality has grown as a result of the VAT's implementation.
Alavuotunki (2023)	The implementation of the value-added tax affected inequality and government revenues.	Offer instrumental variable analyses	The finding shows that the VAT collection efficiency of a contry is influence by various factors such factors as tax rate, threshold, zero rate of tax and over the import of goods and service
Paudel (2023)	To analysis the VAT	Secondary data, published by Government of Nepal and	

	Collection efficiency of Nepal	authorized	from open market etc
Paudel (2023)	Assessing 25 years VAT implementation in Nepal	The right analysis was made with Based on secondary data analysis which are incorporate from the various officials site with government and non- government website	The study shows that, structural institutional reform of the IRD is highly desirable to check the powerful role of tax administrators and businesses, tax compliance is costly due to burdensome processes with registration, filing, need for accounting, and payment, particularly for MSMEs.
Chapagain (2022)	The VAT contributed to Nepal's GDP between 2001 and 2019.	The Ministry of Finance's economic survey was used to gather data.	Therefore, in order to meet growth and support public services for the nation, the government of Nepal should look for ways to increase VAT
Koirala (2022)	To analysis performance of Value Added Tax System in Nepal	Descriptive research design to analyze the VAT revenue with using both primary and secondary data	The VAT performance has been satisfactory in terms of revenue collection and VAT performance showed positive sign with efficiency ratios VAT has been heavily dependent upon import, and domestic transaction has been around 25 percent to 41 percent
James,(2022)	Consequences of actual value-added tax (VAT) systems, and evaluate the “health” of the real VAT	Based on secondary data analysis and aises the immediate question of a benchmark against which to assess the VAT’s health	The analysis shows that, progress is needed toward constructing a comprehensive theoretical framework for the VAT that can incorporate such issues as chain incentives, exemptions, evasion and generate conclusions about the distributional and efficiency effects of the real-life VATs that exist now.
		This research	The result of the study has shows that, after the implementations of VAT in Nepal, the national income

Chapagai, (2021)	To investigate the relationship between VAT and GDP in Nepal	work is both descriptive and inferential nature. With quantitative data were sourced mainly from the economy survey, Ministry of Finance in Nepal	that is measured in terms of GDP has largely improved. This paper recommends that Nepal government should make a full-fledged effort to efficiently collect and effectively utilize such tax revenue through closing the door towards the issues of corruptions.
Acharya (2021)	the possibility that differences in tax efforts across different categories might have a favorable effect on economic growth	The Ministry of Finance's economic survey was used to gather data.	the necessity of safeguarding Nepal's emerging industries at this point in the country's tiny developing economy's fiscal-growth debate.
Neupane (2020).	this study to explain the factors that influence Nepalese banks' profitability	The Ministry of Finance's economic survey was used to gather data.	The analysis shows that the concentration ratio, GDP growth, inflation, exchange rate, and banking sector development have a significant negative impact on the profitability of Nepalese commercial banks as measured by ROA
Dahal 2020	To analysis the trend of VAT and to examine correlation between VAT, total revenue and total tax revenue in Nepal	Based on secondary data analysis which are incorporate from the various site like government and non-government website.	. The analysis shows that, VAT has significant contribution in government of Nepal and positive correlation between VAT, total revenue and total tax revenue in Nepal.
Alhussain (2020)	The banks' total assets, total liabilities, customer deposits, retained earnings, total operating income, total operating	Data were gathered by means of questionnaires.	Furthermore, the analysis discovered that while retained profits before and after value-added tax were statistically significantly different, total assets, total liabilities, customer deposits, current accounts, total operating income
Gnawali (2020),	Developing nations like Nepal that increase income and promote sustainable economic growth. Since value-added	The right analysis was made with the assistance of statistical techniques	Additionally, it is discovered that tax education and taxpayer awareness programs are key factors in Nepal's increased VAT collection.

	taxation (VAT)		
Das (2017),	the GST is to unify many levies into a single, unified tax, thus streamlining India's indirect tax system	The right analysis was made with the assistance of statistical techniques	France is the country that has introduced GST after more than 160 other nations worldwide. In 1999, AtalBihari Vajpayee introduced the concept of Goods and Services Tax (GST) in India
Khanal (2014)	to enhance the sales tax system	The right analysis was made with the assistance of statistical techniques	The applicability concerns take on more significance and necessitate a thorough analysis and solution for Nepal's VAT adoption
Koirala,(2010)	The performance of VAT in Nepal with critical assessment and its performance.	Qualitative and quantitative methods with secondary data from IRD , economic survey etc	The finding shows that the improving compliance behavior of tax payer has been a utopia in Nepal. The registered tax payer are not effective and in stimentaial to the tax generation.

Review Thesis

I have no trouble locating the research done to partially meet master's degree requirements. However, I am unable to examine and utilize every study for the purpose of a research resource. Thus, the following is a survey of some of the theses that are pertinent to this study:

Wagle (2023) carried out research on Nepal's value-added tax system. He makes an effort to assess the various facets of VAT, such as how it affects economic development and corporate entity registration. He makes an effort to determine how beneficial and effective VAT is for the economy as a whole, as well as how it affects commercial firms.

The primary goals of the study are to ascertain the current level of taxpayer awareness regarding taxes in Nepal, assess the efficacy of the value-added tax system, ascertain the current state of the system's implementation, and review the many facets of value-added taxation (VAT). The study's main conclusions include the need for frequent publication of taxpayer-related information and an improvement in income tax understanding. A

special taxpayer education program is required for small taxpayers and employees. When determining tax policy, professors, researchers, taxpayers, and tax exporters should all be taken into account. For taxpayer education initiatives to be more successful, tax-related education should be included in both the campus and school curricula.

Pandey (2022) studied the implementation, issues, and efficacy of VAT. She makes an effort to assess the issues with VAT and how it affects the economy. Different instruments and metrics are employed to calculate VAT. She focuses on how VAT is being implemented, the issues that come up as a result of it, and how effective it is for making future decisions. The study's primary goals are to assess the nature of the current tax laws in Nepal, learn about the taxation practices of different business organizations, ascertain how these companies feel about the laws, and offer suggestions for new tax laws. The study's main conclusions are that, after tracing out several empirical research on VAT, she discovered some issues with the tax, including inadequate management. One of the primary issues with the efficacy of VAT is the lack of an appropriate billing system, together with insufficient public awareness and political instability. She also discovers that, although it is gradually rising, relatively few individuals are aware of VAT.

Sodari (2021). The study's main goals were to assess Nepal's tax system, look at the challenges related to the country's adoption of value-added tax, and investigate the country's potential for future growth in this area. The study's main conclusions were: Since sellers' Value Added is used to calculate VAT at each level of the business process, a value is never charged twice and never has cumulative effects. Presumably, the customer bears the brunt of the VAT. The gross domestic product serves as the best basis for the VAT. In 1954, the VAT was introduced for the first time in France thanks to MC Maurice's practical assistance. 1993 saw the completion of VAT harmonization in EU member states. Almost 150 nations have a fully functional VAT system, while about 160 economies worldwide have implemented VAT in one way or another. The latter variation of VAT does not penalize investment and growth since it excludes capital items from its base, unlike the other types of VAT, which include the gross national product type, income type, and consumption type. Given its administrative viability and natural production techniques, it is seen as acceptable. The addition method, the subtraction method, and the invoicing or tax credit method are the three main techniques

for guaranteeing the VAT base. Around the world, the invoicing approach is more often used. The net VAT obligation calculated using this technique is the total sales VAT collected less the total purchases VAT paid by a business. In contrast, the subtraction approach adds purchase value and factors such as items to the sales value. Under a VAT system, the tax credit technique is regarded as a cross-checking tool. VAT is considered to be 'self-policing' in this sense. One of the two principles—the origin and destination principle—is used by VAT to modify international trade.

Regmi (2020). The study's main goals were to evaluate the impact of VAT on the country's economic growth, review the tax system of Nepal, and look into any issues related to the VAT's implementation there. The study's primary conclusions were that value-added tax (VAT) outperforms turnover tax, manufacturing/import sales tax (MST), wholesale sales tax (WST), and retail sales tax (RST). Despite the enhanced capabilities of the consumption-type VAT and the RST basis. Furthermore, the check-up effects cannot be automatically enforced. Administrative work is required. It is believed that the different impacts of VAT on the Nepalese economy are mostly anticipatory. Using the facts now available, a broad evaluation or prediction is made in an attempt to indicate what is "likely" to occur and what the "Trend" of consequences would be in many areas. Effectiveness of VAT on pricing level, revenue compliance cost announcement, supply on money, aggregate demand price rigidity, evaluation, equity, saving, investment and production business and trade activities import and export, sales tax and other tax collection of revenue, corruption, illegal activities, and tax evasion are all taken into consideration in a broad sense. Quantification of such an effect is typically impossible. The current sales tax system in Nepal is ineffective. It deviates greatly from equity standards and produces a smaller portion of the possible revenue. Given the growing disparity in resources and the ineffectiveness of current activities, it is suggested that Nepal should introduce Value Added Tax (VAT). Nepal has a value-added tax (VAT) system, which will be more beneficial than the current one. This is required to address Nepal's mounting budget deficits, reduce reliance on foreign loans, and create a more transparent, neutral, and broad-based tax system that generates more income.

Paudel (2019). The study's primary goals were to examine the composition of government revenue. to determine the amount of VAT revenue collected in various

years, to look into the administration of the VAT, particularly in the Lalitpur District, to find out what consumers and business owners in the district know about the VAT, and to evaluate the issues with the district's implementation and collection of the VAT. The study's key conclusions were that, as a developing nation, taxes and foreign grants and loans are the main sources of income for the Nepalese government. The drawbacks of using foreign sources are numerous. Grants and loans are never given out without stipulations. Therefore, the government should prioritize collecting money from domestic courses in order to improve the Nepalese economy. In the Nepalese environment, there is a tendency toward increased VAT revenue collection. Combined, VAT generates two thirds of all tax revenue. For Nepal, implementing VAT is both required and imperative. It is unable to halt its development programs, which demand greater funding. Because the previous sales tax's limited tax base primarily included manufacturing facilities and imports, it was unable to bring in the bare minimum of income. Similar to this, Nepal had some opportunity to generate income even though the majority of products and services were free from income tax. Because the government cannot impose more requirements on citizens to pay income taxes, the income tax is gradually declining. The question at hand, though, is not whether or not to deploy vat; rather, it is how to do so in a way that maximizes efficiency and efficacy. It doesn't matter if VAT is eliminated; what matters is that its execution must be improved and controlled. In a developing nation like Nepal, where there are many open borders and a sizable portion of the economy that has not yet been drawn in, implementing a VAT system is quite difficult. The business community's resistance, the public's ignorance, and the politicians' and government officials' lack of complete support and commitments compelled the authority tasked with implementing vat to make concessions on a number of vat-related issues, weakening the process from the start.

2.4 Research Gap

In Nepal, Value-Added Tax (VAT) was first implemented on November 16, 1997, and it has been in effect for almost 26 years. The nation has been subject to value-added taxation (VAT) for almost ten years. Numerous studies have been carried out regarding the value-added tax system in Nepal, including its administration, policy, structure, and impact on national revenue. However, very little research has been done to determine the issues with VAT implementation in Nepal, how to affect VAT on GDP, how effective VAT is in distant areas, or how much taxpayers know about VAT. Additionally, the

majority of studies on VAT were theoretical in nature. By examining current trends and structures, this study has attempted to assess the efficacy of Nepalese Value Added Tax in every area. The majority of scholars have used secondary data to analyze the VAT system, its impact on the GDP of the country, and taxpayers' awareness of it. to understand the role that VAT plays, the issues surrounding it, Nepal's public revenue from VAT, the trend in VAT registration, and the relationship between total revenue and total VAT. In this study, primary and secondary data were gathered directly from respondents in the Dadeldhura district, which is a part of the Parshuram municipality. Secondary data was also obtained from the IRD and NRB yearly reports. The current data used in this research study spans the fiscal years 2070–2071 and 2079–2080. Previous studies did not include the present research.

Previous studies on this subject were restricted by the small sample size and the use of a field survey focused solely on Kathmandu. This study is being carried out in the Dadeldhura district of Sudurpaschim province in order to ascertain the locals' understanding of VAT and any associated issues. Thus, research on the "Effectiveness of Value Added Tax in Dadeldhura District with ". Contribution of Value Added Tax in Total Revenue in Nepal" has not been conducted in any study.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology describes the systematic approach in which a researcher uses various tools and procedures to address a research problem. It is the particular strategy or techniques used to find, select, process, and analyze information on a topic. A research technique helps us determine correctness, validity, and appropriateness. It refers to the several procedures that are often taken by a researcher in researching on his or her research topic along with the reasoning behind it. It is an organized approach to solving an issue. A research technique, which restricts the scope of the study, is similar to a strategy for doing research and aids in maintaining research focus. When choosing an acceptable research technique, there are a number of factors to take into account. For example, ethical issues and study limits should be taken into account. The several processes that are used to get the data are included in this chapter. Both primary and secondary data were gathered for this investigation. The research approach includes an assessment of the GDP contributions made by VAT, total revenue, and the degree of tax payer knowledge regarding VAT in Dadeldhura. The whole study's methodology and procedure, including the research design, data source, population and sample sizes, data collecting instruments, and data analysis tools, are covered in this part.

3.1 Research Design

A scientific study's plan is its research design. It contains the instruments, procedures, and methods for doing the research. It is vital to recognize and deal with any issues that may come up while conducting research and analysis. Descriptive research design was employed in this study to gather, examine, and assess primary and secondary data in order to gain a deeper understanding of the research topic. The quantitative techniques were prioritized in this study's design because they are particularly useful for handling qualitative data. Research design, on the other hand, outlines the overall strategy for gathering, examining, and assessing data. The purpose of this study is to examine the value added tax's efficacy in the Dadeldhura district.

3.2 Population and sample and sampling design

The study's core data population consists of Value Added Tax (VAT) registered taxpayers, tax officers, and ultimate customers in the Dadeldhura area. In order to meet the study's aims, a sample of 120 people has been selected. Of the 120 individuals, the study's target sample consists of 5 tax authorities, 50 VAT-registered taxpayers, and 65 end customers or members of the general public. Because the study population is large, non-probability convenient selection is used to pick the sample, and participants are chosen based on their ease of accessible and close proximity to the researcher.

Table 2

Group of Respondent and size of sample

S. N	Group of respondents	Sample size(n)	Percentage (%)
1	Tax Officials	5	4.17
2	VAT registered taxpayers/Businessmen	50	41.67
3	Consumers	65	54.17
	Total	120	100

Source: Estimated figures

3.3 Nature and source of data

The locations from where the information is obtained are indicated by the data sources. In this research program, primary and secondary sources were employed based on the methods of their gathering. Manly, the data's sources are divided into two groups:

- a) Primary source
- b) Secondary source

a) Primary sources

The primary data are gathered by posing various research questions to the intended respondents, who include consumers, company owners, and tax officials. Primary data provide the factual information needed to fulfill the study's objectives. A questionnaire sent to respondents is the main instrument used to gather primary data. To get the real results, a series of questionnaires was created and sent to the 110 respondents who were chosen.

b) Secondary sources

Secondary data refers to information that has already been gathered and is easily accessible from another source by another party. These data can be retrieved more rapidly and at a lower cost than original data, and they may also be accessible in situations where main data is completely unavailable. The Ministry of Finance's Economy Survey, newspapers, books, IRD yearly reports, and other publications are the sources of the secondary data.

3.4 Data collection procedure

Research data have been gathered from primary and secondary sources, as previously mentioned. A series of questionnaires was created and given to the chosen respondent in order to obtain primary data. The Ministry of Finance's Economic Survey from a variety of years, IRD yearly reports, and questionnaires are the sources of the data. Information is gathered, compiled, and tabulated under several areas. To get true and accurate information, a sample population has been interviewed and talks have been held with the relevant individuals to some extent.

3.5 Data processing and analysis

Processing is the process of doing various procedures on research data to get the intended outcome. Meaningful tables and figures have been created using the pertinent data. Figures and tables have only shown the facts that are pertinent to the research. With the use of several statistical methods, an attempt is made to infer the conclusion from the data that is now accessible. Excel and SPSS are computer programs that are used to calculate statistical values such as mean, standard deviation, coefficient of variance, and correlation.

3.6 Data Analysis Tools and Techniques

Statistical tools were developed with data analysis and display in mind. Following the organization of pertinent data, statistical tools like mean, standard deviation, graphs, diagrams, correlation, and regression are used to evaluate the data in order to accurately and clearly display and comprehend the results. Below is a quick explanation of each.

a) Percentage

In order to ascertain the evolving status and contribution status of VAT throughout many fiscal years, percentages have been calculated in tables. Additionally, it is computed for the proportion of various responses to a certain question in primary data.

b) The bar diagram and pie chart

A bar diagram or pie chart is a sort of visual presentation that is used to compare the frequency of occurrence of various data features. It is always used to compare groups of data and to swiftly draw conclusions about the data.

c) Arithmetic mean

One number from the data range that is used to represent every value in the series is the mean, or average value. An average is also known as a measure of center value as it falls somewhere within the data's range. \bar{X} generally devotes himself to it.

d) Standard deviation

The most used metric for characterizing variability in data distributions is the standard deviation. It can be interpreted as an approximation of the average deviation of observations from the mean on either side. The standard deviation, represented by a Greek letter (sigma), is a very helpful tool for evaluating the mean's representations.

e) Coefficient of variation

The ratio of a sample's standard deviation to its mean, known as the coefficient of variation, is utilized to quantify the spread. It is also possible to think of it as the relative risk measure.

f) Correlation analysis

The link between VAT, tax revenue, and total revenue is seen in this analysis. Karl Person's correlation coefficient, or "r," is employed in analysis together with the most recent version of the SPSS software to determine the link between the variables provided. Any two variables' linear correlation is measured. To evaluate the strength or degree of the association between the research variables, a correlation matrix was created. The correlation coefficient has values between -1 and +1; a correlation coefficient of +1 denotes a perfect, upward-sloping (+) linear relationship between the two variables, while a correlation coefficient of -1 indicates a perfect, downward-sloping (-) linear

relationship. The absence of any link between the variables is shown by a correlation value of 0.

3.7 Conceptual framework

A conceptual framework is a flexible analytical tool that may be used in a variety of situations. It is employed to arrange concepts and draw conceptual distinctions. Robust conceptual frameworks effectively convey a true idea in a form that is simple to recall and implement. Written materials, including textbooks and yearly reports from officially recognized government entities in Nepal, provided the necessary data. the Ministry of Finance's (MoF) economic study and the Inland Revenue Department (IRD). The direct tax, indirect tax, and VAT factors are considered independent variables. For the analysis, the dependent variable is the gross domestic product. To examine the relationship between variables, refer to the figure below.

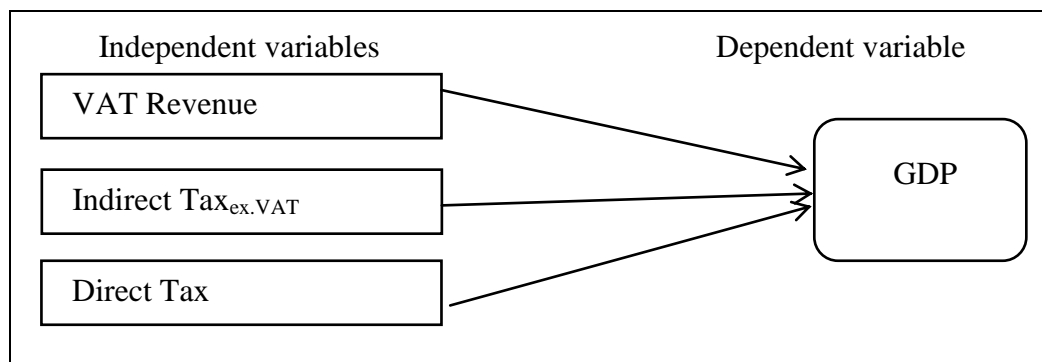


Figure 3.1 Conceptual framework

(Source: Chapagain (2022))

Figure 3.1, which comes from the researchers' own source, illustrates how direct tax, indirect tax, and VAT affect GDP. The framework will be built with the intention of achieving the study's intended goals.

The study's descriptive research design was used to examine secondary data for data analysis. These variables are chosen for the research of dependent and independent variables in order to examine the effect of value added tax revenue on GDP. The GDP of Nepal is the dependent variable, and it is anticipated that the independent factors would positively relate to it. This indicates that in Nepal, a rise in VAT leads to an increase in GDP, while a decrease in VAT results in a decrease in GDP.

3.8 Reliability and Validity of Data

Both qualitative and quantitative methods are used in the data collecting process, increasing the likelihood of receiving the most accurate information. In addition to this triangulation, data validity and reliability are increased by the use of questionnaire-based data collection. Constraints also help to improve the validity and reliability of data. Some limitations can occur because the sample is only taken from the Dadeldhura district and does not represent the entire nation.

Although the researcher has made every effort to ensure that the data is as accurate as possible, primary data does not cover the entire nation. A portion of the data was obtained directly from the survey. For those who are interested in this study, the goal has been to make it legitimate and trustworthy. This study report covers the entire nation and is superior to other research reports when compared to them.

CHAPTER –IV

RESULTS AND DISCUSSION

The study results from secondary data and surveys are presented and examined in this chapter. The study's four research questions, which served as a guide and helped achieve its primary goal of evaluating the efficiency of VAT in Dadeldhura area, produced the findings. Tables and charts are used to display the data. Data that was not able to be quantified is explained. Included are the respondents' questionnaire responses as well as the explanation and statistical calculation findings.

4.1 Presentation and analysis of secondary data

The only significant driver of the government's economic development is taxation. Controlling tax leakage is a hurdle after the potential leakage region has been identified, even with continual economic flow revenue.

4.1.1 Tax Revenue structure of Nepal

There are two categories of taxes in Nepal: direct taxes and indirect taxes. Value-added tax, sales tax, customs duty, contract tax, and other indirect taxes are collected in addition to income tax, land tax, property tax, and other direct taxes. On the other hand, non-tax revenue such as postal service charges, fees, fines, and forfeitures, among others, have been received by the government. Non-tax revenue is not levied in certain ways with regard to revenue collection. The quantity of tax income in the Nepalese economy typically exceeds the amount of non-tax revenue. In the past, taxes made up around 80% of total income in Nepal, while non-tax revenue made up 20%. Tax and non-tax revenue, as well as their respective contributions to total revenue, are shown in table 3.

Table 3*Revenue structure in Nepal (Rs in ten millions)*

Fiscal year	Total public revenue	Tax revenue	Tax revenue as % of total revenue	Non tax revenue	Non tax revenue as % of total revenue
2070/71	35662	31244	87.61%	4418	12.39%
2071/72	40587	35596	87.70%	4991	12.30%
2072/73	48197	42110	87.37%	6087	12.63%
2073/74	60918	55387	90.92%	5531	9.08%
2074/75	72672	65949	90.75%	6723	9.25%
2075/76	82966	73860	87.96%	10106	12.04%
2076/77	79378	70001	88.19%	9373	11.81%
2077/78	93590	87010	92.96%	6580	7.03%
2078/79	106630	98430	92.30%	8200	7.69%
2079/80	95720	86560	90.43%	9150	9.55%
		Average	89.62%	Average	10.38%
		SD	1.96%	SD	1.99%
		CV	2.18%	CV	19.17%

Source: Source: Inland Revenue Department, annual report fiscal year 2079/080

The contribution of tax and nontax revenue to the total amount of public revenue generated between 2070–2071 and 2079–2080 is displayed in Table No. 4.1. In the base year 2070–2021, the tax revenue contributed amounts to 87.61 percent. This raises the year 2071/72 by a small amount. It reached the greatest point during studied periods in 2077–2078 at 92.96%. It reached 90.43% in 2079–2080. However, nontax revenue's share of total income is 12.39% in 2070–2071 and remains steady until 2072–2073; after that, it starts to decline and reaches 12.04% in 2075–2076 and 11.81% in 2076–2077. Over a period of seven years, the average contribution of tax revenue is 88.64%, while the average contribution of non-tax income is 11.36%. It demonstrates that tax revenue is rising in order, that tax revenue contributes significantly to the creation of total revenue, and that non-tax revenue contributes little.

The overall judging figure shown in Table 4.1 shows that the non-tax revenue contribution is in declining order and the tax revenue contribution is in increasing order. Positive or progressive tax revenue in current years compared to base year was shown. which is also seen in the following figure?

4.1.2 Share of VAT revenue to gross domestic product (GDP)

The market value of all finished products and services generated on the nation's territory by both citizens and non-residents is known as the gross domestic product. In contrast, the GDP is a commonly used indicator of the value added generated in a nation during a specific time period as a result of the production of products and services. The consistency of the rise in VAT income with the equivalent growth in the gross national product is gauged by the VAT/GDP ratio. This is a key indicator for the use of taxable capacity; fast economic development of a nation is best achieved when VAT revenue mobilization grows in tandem with GDP growth. VAT revenue collection is more dependable than direct tax income or nontax revenue, which helps the nation's economic planning and development processes. Table 4.2 displays the VAT revenue's percentage of GDP.

Table 4

VAT revenue as percentage of GDP (Rs in ten millions)

Fiscal years	GDP*	VAT revenue Total	VAT % of GDP
2070/71	223252	10097	4.52%
2071/72	242363	11849	4.89%
2072/73	260818	12775	4.90%
2073/74	307714	16645	5.41%
2074/75	345595	20680	5.98%
2075/76	385893	24166	6.26%
2076/77	388870	22407	5.72%
2077/78	435255	28192	6.64%
2078/79	493370	31422	6.36%
2079/80	538134	17631	3.27%
		Average	5.40%
		SD	0.96%
		CV	17.41%

Source: Source: Inland Revenue Department, annual report fiscal year 2079/080

GDP*= Real GDP at producer's price,

According to Table 4, the average percentage of VAT income in GDP during the course of the analysis period is 5.40%. Only in the fiscal year 2070–2071 did the total amount collected as VAT amount to Rs 10097 ten million, or 4.52% of GDP. Nevertheless, this represents a very small percentage of GDP over the course of all the years of analysis, even though the percentage does indicate an increasing trend. With VAT income totaling Rs. 28192 million, the fiscal year 2077–2078 had the highest percentage, 6.64 percent,

recorded. According to this statistic, the VAT contribution in 2079–2080 is quite small—3.27%—due to the impact of COVID-19 and other conflicts in the global market. Additionally, the VAT is not fully collected at the conclusion of the economic year. Thus, it may be concluded that the trend is showing an upward tendency. Thus, in summary, the GDP contribution from VAT is small but on the rise. A figure may be used to display it.

4.1.3 Contribution of VAT on total revenue and tax revenue

The total revenue is the sum of the revenue from taxes and nontax sources. Both direct and indirect taxation methods are used to collect tax income. Income is subject to direct taxation or indirect taxation based on the consumption of goods and services. The primary source of indirect tax revenue is customs, and one of the key characteristics of emerging economies is the primacy of the tax payer when it comes to the consumption of goods and services. Because of their lower marginal income, emerging nations tend to have stronger consuming tendencies.

A significant source of both overall revenue and tax revenue is the VAT. The most recent development in the world of taxes is value added tax. It is a scientific tax system that was first implemented in France in 1954. Value-added tax was introduced in Nepal in 1997 to replace sales tax. Thus, Nepal's government receives the majority of its funding from VAT. It makes up roughly 5% of GDP and around one-third of all tax income. Value-added tax is the primary and most significant source of tax revenue, accounting for a large portion of the overall public revenue. VAT's percentage of Nepal's overall income and tax revenue is shown in the following table.

Table 5*Contribution of VAT on total revenue and tax revenue (Rsinten millions)*

Fiscal years	Total revenue	VAT revenue	% of VAT on total revenue	Total tax revenue	% of VAT on tax revenue
2070/71	35662	10097	28.31%	31244	32.32%
2071/72	40587	11849	29.19%	35596	33.29%
2072/73	48197	12775	26.51%	42110	30.34%
2073/74	60918	16645	27.32%	55387	30.05%
2074/75	72672	20680	28.46%	65949	31.36%
2075/76	83966	24166	28.78%	73860	32.72%
2076/77	79378	22407	28.23%	70001	32.01%
2077/78	93590	28192	30.12%	87010	32.40%
2078/79	106630	31422	29.47%	98430	31.92%
2079/80	95720	17631	18.42%	86560	20.36%
		Average	27.48%	Average	33.95%
		SD	3.17%	SD	13.08%
		CV	11.55%	CV	46.77%

Source: Source: Inland Revenue Department, annual report fiscal year 2079/080

The volume of Nepal's total revenue and tax revenue from FY 2070/71 to FY 2079/80 is shown in Table 5. The overall income for the fiscal year 2070–2071 was Rs. 35662 ten million, but in the fiscal year 2078–2079, it climbed to Rs. 106630 ten million, the greatest amount during the study years. The average percentage of VAT to total income for the research periods is 27.48%, with no variation seen between the periods. In 2070–2071 tax revenue was Rs. 31,224 million, while in 2078–2079 it reached a height of Rs. 98430 million. During research periods, the average contribution of VAT to tax revenue was 33.95%, with little fluctuations seen across all analyzed years.

The figure above shows a somewhat declining rate of VAT contribution to overall tax income. Numerous commercial establishments in Nepal are facing challenges due to political unpredictability, shifting government regulations and policies, and a dearth of conducive investment environments. However, once the issue has taken root, economic activity rises and revenue collection naturally rises as well. Figure as can be used to display it.

4.1.4 Analysis of VAT revenue

Table 6

Analysis of VAT revenue(Rs. in ten millions)

Fiscal Year	VAT Collection (Rs.)	Increments %
2070/71	10097	20.92%
2071/72	11849	17.35%
2072/73	12775	7.82%
2073/74	16645	30.29%
2074/75	20680	24.24%
2075/76	24166	16.86%
2076/77	22407	-7.28%
2077/78	28192	25.81%
2078/79	31422	11.45%
2079/80	17631	-43.88%
Average	19586.4	10.36%
SD	5792	5.78%
CV	29.57%	5.57%

Source: Inland Revenue Department, annual report fiscal year 2079/080.

The total amount of VAT collected as well as the percentage growth in VAT collections from year to year are displayed in Table 6. From FY 2070/71 to FY 2072/73, the percentage of total income collected from VAT decreased, and in FY 2073/74, it grew significantly. And after that, it began to decline until FY 2076–2077, when it ultimately declined adversely by 7.28%. At that point, the COVID-19 pandemic was having an impact on commercial and industrial activity. The trajectory of VAT collection is unstable. Annual fluctuations occur. The VAT revenue for FY 2069–2070 is Rs. 8350, with a percentage rise in FY 2070–2071 taken out. The year 2079–2080 saw a significant decline in VAT collection, which had a detrimental influence on the economy. The full statistics for the year was not published.

4.2 Correlation analysis

The link between VAT, tax revenue, total revenue, and GDP is seen in this analysis. Karl Person's correlation coefficient, or "r," is employed in analysis to determine the link between the aforementioned variables. Any two variables' linear correlation is measured. To evaluate the strength or degree of the association between the research variables, a

correlation matrix was created. The correlation coefficient has values between -1 and +1; a correlation coefficient of +1 denotes a perfect, upward-sloping (+) linear relationship between the two variables, while a correlation coefficient of -1 indicates a perfect, downward-sloping (-) linear relationship. When the correlation coefficient is zero, it means that there is no link between the variables and they are independent. Table 4.5 displays the correlation results between all the variables that were discussed.

Table 7

Correlation between VAT, tax revenue, total revenue and GDP

Variables		Vat Revenue	Tax Revenue	Total Revenue	GDP
Vat Revenue	Pearson Correlation	1			
Tax Revenue	Pearson Correlation	.995**	1		
Total Revenue	Pearson Correlation	.996**	.999**	1	
GDP	Pearson Correlation	.991**	.990**	.993**	1

** . Correlation is significant at the 0.01 level (2-tailed).

All of the variables in Table 7 exhibit a strong positive association with one another. VAT has a strong positive association with a significant level of 0.995 between VAT and tax revenue, 0.996 between VAT and total revenue, and 0.993 between VAT and GDP. In this case, there is a 0.995 correlation coefficient between VAT and total tax revenue. Looks like it's close to +1. This demonstrates that the link between VAT and total tax revenue is quite positive. Likewise, it is discovered that there is 0.996 correlation coefficient (or "r") between VAT and total revenue. This demonstrates the very strong correlation between total income and VAT. The coefficient of determination (r^2) is equal to 0.994. This indicates that the VAT will account for 99.40 percent of the overall income fluctuation, with the remaining percent coming from other sources. The conclusion is that there is a strong correlation between total revenue and VAT. Thus, VAT has made a substantial contribution to Nepal's overall revenue.

Regression Analysis

This section ascertains which independent variables account for variance in the result, the extent to which independent variables and the dependent variable account for variance in

the dependent variable, and the variables that are significant (relative to other variables) in accounting for the dependent variable's variability. Utilizing linear regressions, the influence of independent factors was investigated. Although the precise nature of the link between the two variables cannot be ascertained, the correlation coefficient suggests that there is a substantial association between the two variables. Regression analysis sheds further light on the nature of the link in this instance. It is employed to forecast and characterize the nature of a connection.

One statistical method for determining the associations between variables is regression analysis. Value Added Tax (VAT) Compliance is the dependent variable in the regression analysis, with GDP, VAT revenue, indirect tax, and direct tax utilized as independent variables. Although the precise nature of the link between the two variables cannot be ascertained, the correlation coefficient suggests that there is a substantial association between the two variables. Regression analysis sheds further light on the nature of the link in this instance. It is employed to forecast and characterize the nature of a connection.

Regression analysis was employed in this study to evaluate the hypothesis. This section identifies which independent variable accounts for the variation in the dependent variable, how much of the dependent variable's variability is accounted for by the independent variables, and which variables are significant (relative to other factors) in accounting for the dependent variable's variability. The link between the dependent variable (Value Added Tax (VAT) Compliance) and the independent variables (GDP, VAT revenue, Indirect tax vat, and Direct tax) was determined using linear regression analysis. Because of its accessibility, ease of interpretation, scientific acceptability, and simplicity, linear regression is a more appropriate method.

Model Summary

Table 8

Regression Model Summary

R	R ²	Adjusted R ²	Std. Error of the Estimate
0.747	0.558	0.549	0.53526

a. Predictors: (Constant), GDP, VAT revenue, Indirect tax vat, Direct tax

b. Dependent Variable: Value Added Tax (VAT) Compliance

The multiple correlation coefficient (R), as indicated in Table 8, is 0.747 (74.7%), indicating a strong linear link between the dependent variable (VAT compliance) and the independent variables (GDP, VAT revenue, indirect tax, and vat). The study's independent criteria accounted for just 55.80% of taxpayers' knowledge regarding VAT compliance. This implied that 44.20% VAT compliance was influenced by other factors not covered in this study. Consequently, more study has to be done to look into the other variables (44.20%) that affect VAT compliance in Nepal.

The GDP, VAT revenue, indirect tax, direct tax, and VAT have an adjusted R Square of 0.549, which indicates that these factors account for 54.9% of the variation in VAT compliance in Nepal. The average distance that the observed values fall from the regression line is represented by the standard error of the estimate, which is a measure of dispersion (or variability) in the predicted scores in a regression. Because the standard error of estimate, which stands at 0.53526, is minimal, it indicates that the estimations are within the chosen 0.95 level of confidence because the observations are closer to the fitted line.

ANOVA Test

Table 9

Regression ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	71.833	4	17.958	62.681	0.000
Residual	57.014	199	0.287		
Total	128.847	203			

a. Predictors: (Constant), GDP, VAT revenue , Indirect tax vat, Direct tax

b. Dependent Variable: Value Added Tax (VAT) Compliance

The F-ratio in the ANOVA determines if the overall regression model was a good match for the data, as shown in Table 4.14. The F-test findings indicate that, taken together, the independent factors have a considerable impact on the dependent variable ($F(4, 199) = 62.681 > 2.61$). Consequently, the findings suggest that VAT compliance might be predicted using the four predictor model.

Regression Coefficients

The many contributing factors used to measure the dependent variable are displayed by the regression model's coefficients. The GDP, VAT revenue, indirect tax, direct tax, and value-added tax (VAT) compliance are some of the contributing elements in this study. As a result, each individual value's p-value, test statistic value, and standard error are displayed in the coefficient table.

Multiple regression analysis was conducted as follows to determine whether there was a statistical link between the predictor variables (GDP, VAT revenue, indirect tax, and direct tax) and the dependent variable (VAT compliance):

Table 10
Regression Coefficients

Model	Unstandardized		Stand	T	Sig.	Co linearity	
	Coefficients					Coeff.	Statistics
	B	Std. Error	Beta	Tolerance	VIF		
(Constant)	.737	.224		3.295	.001		
GDP	.155	.078	.142	1.994	.048	.440	2.271
VAT revenue	.108	.095	.102	1.130	.260	.272	3.670
Indirect tax vat	.041	.079	.041	0.520	.603	.352	2.840
Direct tax	.535	.081	.526	6.606	.000	.350	2.854

The following may be deduced from the regression equation based on the coefficient of variables:

In TE, GDP is shown. It's not a dependent variable. The coefficient table shows that the GDP has a 0.155 influence on the VAT compliance equation. In other words, the VAT Compliance value rises by 0.155 for every unit growth in GDP, provided that all other factors in the equation remain constant and specified and have no effect.

The variable's standard error is.142. This indicates that there may be a 0.142 range of variation in the GDP number. The standard error of TE is represented by the symbol Sb1.

By dividing the specific coefficient by the coefficient's standard deviation, the T test is calculated. In this case, the value of T is calculated by dividing the coefficient's value of 0.155 by the variable's standard error of 0.142. T now has a value of 1.994 as a result.

This variable's significance level is 0.048, which indicates that the probability value is more than 1% and less than 5% at the significance level. Thus, this variable in the research or model does not have adequate significance at the 1% level, although other factors in the study do have significance at the 5% level.

The last column displays the multicollinearity in the research for the associated variable. Since the GDP VIF in this case is 2.271, which is less than 10, we may conclude that the variable among others does not exhibit multicollinearity.

VAT revenue is represented by the TA variable. It's not a dependent variable. The coefficient table shows that the effect of VAT revenue on the VAT compliance equation is 0.108. In other words, the VAT Compliance value rises by 0.108 for each unit increase in VAT income, provided that all other factors in the equation remain constant and specified and have no effect.

The variable's standard error is 0.095. This indicates that there may be a 0 degree of up- or down-swing in the value of VAT revenue. 095. Sb2 is the expression for the standard error of TA.

By dividing the specific coefficient by the coefficient's standard deviation, the T test is calculated. Here, the value of T is calculated by dividing the coefficient's value of 0.108 by the variable's standard error of 0.095. T now has a value of 1.130 as a result.

In this case, the variable's significance level is 0.260. This indicates that there is a 26% chance of mistake, or that the error has a probability of 0.260. Therefore, this variable's relevance in the study and model is incorrect. Stated differently, the variable lacks relevance or value since the associated error is more than 5%.

The last column displays the multicollinearity in the research for the associated variable. Since the VAT revenue variable's VIF is 3.670, which is less than 10, we may conclude that the variable does not exhibit multicollinearity.

TSS= Tax Vat Indirect

Indirect tax vat is represented by the TSS variable. It's not a dependent variable. The impact of indirect tax vat on the formula to determine the impact on VAT compliance is 0.41, according to the coefficient table. Put another way, for every unit increase in the

indirect tax vat, the VAT Compliance value rises by 0.41 provided that all other variables remain constant and specified and have no effect from any unknown factors.

The variable's standard error is.079. This indicates that there may be a.079 range in the value of the indirect tax vat. Sb3 is the expression for the TSS standard error.

4.3 Primary Data Analysis and Presentation

The responder category and sample size are displayed in table 8 below.

Table 11

SampleSize and Field Survey

S. N	Group of respondents	Sample size(n)	Percentage (%)
1	Tax Officials	5	4.16
2	Businessmen	50	41.67
3	Consumer	65	54.17
	Total	120	100

Source: Estimated figures

The whole population of Dadeldhura district who was either a member of or connected to Value Added Tax made up the study's population. 120 people have been regarded as the complete sample of tax officials, businessmen (VAT registered taxpayers), and ultimate customers in order to meet the study's goals. Of the 120 individuals, the study's target sample consists of 5 tax officials, 50 businessmen, and 65 ultimate customers or members of the general public. A total of 120 sample sizes are chosen from three distinct responder groups. Using the researcher's best opinion, samples from the Dadeldhura District population are chosen. In sampling, a purposeful sampling strategy was also applied.

4.3.1 Response rate

Table 12

Sample Size and Response Numbers

S. N	Group of respondents	Sample size(n)	Number of respondents
1	Tax Officials	5	4
2	Businessmen	50	45
3	Consumer	65	61
	Total	120	110

After deducting non-responses, a total of 120 questionnaires were distributed, with an anticipated return of 110 questionnaires. As indicated in table 9 below, 110 questionnaires were gathered following the exercise, with a response rate of 91.67% and a non-response rate of 8.33%.

4.3.2 Knowledge about current VAT rate

The question, "Do you know what the current rate of VAT in Nepal is?," was posed to respondents in order to find out if they were aware of the country's current VAT rate. were questioned. The following is how the responders answered:

Table 13

Knowledge on Current VAT Rate

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
13%	4	100	45	100	46	70	95	86.36
12%	-	-	-	-	4	6.15	4	3.63
11%	-	-	-	-	1	1.64	1	0.91
Don't know	-	-	-	-	10	15.39	10	9.10
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Out of 110 respondents who were tax officials, businessmen, and consumers, Table 13 reveals that 86.36% of them are aware that Nepal's current VAT rate is 13%; 3.63% of

them answered that it is 11%; and 0.91% of them stated that it is 13%. In a similar vein, 9.10% of them claimed that they had no knowledge of Nepal's current VAT rate.

According to the analysis of Table 4.10, which includes 100 percent tax authorities and businesspeople, 70.77 percent of customers are aware of Nepal's current VAT rate, which is 13%. Nonetheless, 3.63 percent of consumers said that the VAT rate is now 12 percent. In a similar vein, 9.10% of the customers reported that they had no knowledge of the current VAT rate. This demonstrates the necessity of public awareness campaigns.

4.3.3 Knowledge about taxpaying procedure

The majority of businesspeople in Dadeldhura district lack theoretical understanding of Nepal's economic environment and tax code. If people are sufficiently informed about the process of filing taxes, they will be encouraged to pay taxes in Nepal. Thus, a high degree of taxpaying procedure awareness may help to generate large tax revenues. Questions were posed in order to learn more about taxpaying procedures, and the answers are shown in table 14 below.

Table 14

Knowledge about taxpaying procedure

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	4	100	35	77.78	26	42.62	65	59.09
No	0	0	10	22.22	35	57.38	45	40.91
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Table 14 shows that 59.09% of respondents are aware of the process for paying taxes. It displays the favorable outcome of the respondent's aggregate analysis. However, just 40.91% of customers specifically knew how to pay for VAT, which indicates a lack of awareness. In a similar vein, 100% of tax officers and 77.78% of businessmen knew how to file taxes. It showed that while tax officers were well-versed in the process of paying VAT, over half of company owners were not aware of it, and nearly all consumers were unaware of it.

4.3.4 Habit of demanding tax invoice after purchased

The success of the VAT system will depend on how well-informed consumers, businesses, and tax authorities are about the invoicing system. "Do you ask for the tax invoice after purchasing goods or services?" was the question posed in an attempt to ascertain the taxpayers' degree of familiarity with the invoicing system. The survey's findings regarding this particular element are shown below:

Table 15

Habit of demanding tax invoice after purchased

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	N.	%
Alternatives								
Yes, on every purchase	4	100	30	70.97	10	9.10	44	35
Yes, but not regular	-	-	15	29.03	25	36.36	40	32
No, never	-	-	-	-	26	54.54	26	33
Total	4	100	45	100	61	100	110	100

(Source: - Field survey 2024)

Table 15 shows that 100% of tax authorities, 70.97% of company owners, and 9.10% of customers often accept the bill for the majority of their transactions. 35% of respondents in total claim to pay the VAT on each transaction they make. A little over one-third of respondents said they usually, but not always, take the bill while making purchases. In a similar vein, the study of all responses revealed that customers are not very serious about requesting invoices; 54.54% of customers do not request a tax invoice following the purchase of products and services. The results demonstrate the need for an ongoing awareness campaign to raise taxpayers' understanding of VAT and its invoicing mechanism.

4.3.5 VAT increase the price of the product

In fact, many believe that the VAT is the most significant tax reform of the twenty-first century. VAT is an indirect tax that is collected in phases. It's also known as a multi-phase tax scheme. At the conclusion, the businessman who deals directly with the consumer collects the VAT. Value-added tax should rise in tandem with the cost of the

products and services. So comedy get more expensive due to VAT as well. The survey's results are displayed in table 12 below.

Table 16

Increase the price of product on VAT

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No	%	No.	%	No.	%
Alternatives								
Yes	4	100	30	66.67	40	65.58	74	67.27
No	-	-	15	33.33	1	1.63	16	14.55
I don't know	-	-	-	-	20	32.79	20	18.18
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

According to Table 16, all respondents—100% of tax officials, 66.67% of company owners, and 65.58% of consumers—feel that taxes add to the burden already placed on taxpayers and drive up the cost of products and services. Overall, 67.27 percent of respondents said that VAT raises the cost of goods and services and places an additional burden on taxpayers. Nonetheless, 14.55 percent of those surveyed believe that VAT does not add to taxpayer burdens or drive up the cost of goods and services. In a similar vein, 65.58% of customers stated that VAT raises the price of the goods in relation to the issue, while 18.18% of consumers stated they had no clue.

4.3.6 Views on real taxpayer of VAT

"In your opinion, who is the real taxpayer of VAT?" was the question posed to the responders to find out their thoughts on the matter. The table and figure following provide an analysis and summary of the opinion result:

Table 17*Real taxpayer of VAT*

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Alternatives								
Consumer	4	100	40	88.89	21	34.42	65	59.09
Businessmen	-	-	5	11.11	30	49.19	35	31.81
No idea	-	-	-	-	10	16.39	10	9.10
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

According to Table 17, the true taxpayers of VAT are consumers, with 34.42 percent responding, 88.89 percent businessmen, and 100% tax authorities answering in the affirmative. Overall, 59.09% of the 110 respondents stated that the true VAT taxpayers are the customers. However, 31.81 percent of them stated that business owners are the actual VAT taxpayers, and 9.10 percent said they were unaware of this. The majority of customers are unaware of who the true VAT taxpayer is, according to this study's findings. Of those who responded, 49.19% selected businesspeople as the real VAT taxpayer because they were not well-informed about taxes in the Dadeldhura region.

4.3.7 Public awareness regarding VAT

Respondents were questioned about popular knowledge of VAT. "Do you think that the public is fully aware of VAT in Dadeldhura district?" was the question posed in response to this. The following conclusions were drawn from the field survey:

Table 18*Public awareness regarding VAT*

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Alternatives								
Yes fully	-	-	3	6.67	-	-	3	2.73
Little	4	100	15	33.33	31	50.82	50	45.45
Not at all	-	-	27	60	30	49.18	57	51.82
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Table 18 shows that the public's awareness of VAT is deemed to be somewhat by 100% of tax authorities, 33.33 percent of businessmen, and 50.82 percent of consumers. Of all the responses, 49.18% of consumers and 60% of businessmen believe that the public is unaware of VAT in the Dadeldhura district. Overall, 51.82% of respondents believe that the public knows a little bit about VAT, 45.45% believe that the public does not know about VAT, and 2.73% believe that the public knows everything there is to know about VAT. The majority of respondents contended that the public is both somewhat and completely unaware, as indicated by the percentage. The public has to be made aware.

4.3.8 Difficulty faced by taxpayers while paying VAT

The Government of Nepal's Finance Ministry and Inland income Department should place a strong emphasis on assisting taxpayers in order to increase VAT collecting income. Respondents were questioned about the challenges they encountered as VAT payers.

Table 19

Taxpayer difficulty while paying VAT

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Time delay in service	-	-			5	8.19	5	4.54
Payment procedure	3	75	20	44.44	15	24.59	38	34.55
Lack of tax office near place	1	25	20	44.44	10	16.39	31	28.18
Confusing rules and regulations			5	11.12	31	50.82	36	32.73
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Table 19 from the 110-respondent survey, which included 61 consumers, 45 businesspeople, and 4 tax authorities. Of them, 75% of tax officials who answered mentioned how difficult it was to do the payment process, and 25% mentioned how difficult it was to find a tax office nearby when paying VAT. In a similar vein, 44.44% of businessmen dislike the payment process and the absence of a nearby tax office, while 11.12% of respondents blamed the absence of rules and regulations. Similarly, 50.82% of consumers responded with confusing rules and regulations, and an aggregate of 4.54%,

34.55%, 28.18%, and 32.73% of them responded on difficulty regarding time delay in service (8.19%), payment procedure (24.59), lack of tax office nearby place (16.39), and so on. Overall, 38% of taxpayers are reacting due to problems with the payment process, and 36% are responding due to unclear laws and regulations. The findings indicated that, in order to ensure efficient VAT administration, the tax payment process should be simple, give clear information about laws and regulations, and have taxpayer service offices located in various business sectors.

4.3.9 Views on weakness of VAT administration

Major flaws in Nepal's VAT administration have been identified, including a dearth of trained personnel, a high level of corruption, and a lack of infrastructure. In order to identify the primary weakness in VAT administration, the field survey was completed in this regard. The table displays the result on this perspective.

Table 20

Views on major weakness of VAT administration

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Lack of skilled full manpower	2	50	20	44.44	15	24.59	37	33.64
Corruption	-	-	5	11.12	30	49.18	35	31.81
Lack of infrastructure	2	50	20	44.44	16	26.23	38	34.54
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Table 20 demonstrates that, of the 110 tax officials, business owners, and consumers who responded, 38% stated that the main flaw in VAT administration is a lack of infrastructure, 37% stated that the main flaw is a lack of skilled labor, and 35% stated that corruption is the main flaw in VAT administration. The vast majority of respondents stated that a deficiency in infrastructure is the main vulnerability of VAT administration. However, there are still significant flaws in the VAT administration system.

4.3.10 Problems in the implementation of VAT

The value added tax system in Nepal began with the replacement of the sales tax. The value added tax system in Nepal is on the right track, however there are still certain issues that customers, company owners, and tax officers must deal with. The question of what issue should we focus on in order to successfully adopt VAT was posed to the responders. The response they provided is documented in table 17.

Table 21

VAT implementation problems

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Alternatives Administrator	-	-	10	22.22	10	16.3	20	18.18
Incapability					9			
Under Invoicing			5	11.11	10	16.3	15	13.6
Change in rules & regulation	-	-	5	11.11	10	16.3	15	13.6
Lack of public awareness	3	75	20	44.44	25	40.9	48	43.6
Lack of the effective policy and strategy	1	25	5	11.11	5	8.20	11	10
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Table 21 reveals that 43.64% of respondents identify a lack of public awareness as the cause of the ineffective VAT implementation in Dadeldhura district. As a result of the general lack of understanding regarding VAT, consumers seldom ever request a bill for the products and services they have purchased. 10% of respondents said that the implementation of the VAT was hampered by a lack of long-term policies and strategies. According to 18.18% of responses, the administration is unable. One significant issue raised by 13.63% of respondents is the need for laws and regulations to be changed in Nepal in a timely manner. However, data from 43.64% of respondents indicates that the most significant issue is a lack of public knowledge. The government ought to launch educational initiatives in many sectors at the provincial level in order to address the issue.

4.3.11 VAT collection problem in Dadeldhura

VAT is obtained from taxpayers in an indirect manner. Despite the VAT's modern and scientific nature, it is anticipated that tax revenue will increase dramatically through it; but, thus far, the outcome has not been satisfying. What are the underlying issues is the most important question. The collection of VAT may be hampered by a number of issues. The respondents were given four options, which they were free to rank whichever they pleased. Table 19 displays the total points awarded by tax officials, business owners, and customers.

Table 22

Problems in VAT collection in Dadeldhura

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Registration	-	-	10	22.22	16	26.2	26	23.63
Account keeping	-	-	10	22.22	5	8.20	15	13.6
Billing	3	75	20	44.44	25	40.98	48	43.6
Tax refunding	1	25	5	11.11	15	24.5	21	19.1
						9		0
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

According to table 22, 43.64% of the 110 respondents think that the largest issue with VAT collection is billing. Of these, 44.44% of businesspeople, 40.98% of customers, and 75% of tax authorities approve this option with billing. Tax registration issues rank second in terms of VAT collection on average, accounting for around 23.63% of all issues. According to 19.10% of respondents, the Dadeldhura district's VAT collection is hindered by tax refunds. The biggest issues are often with invoicing and registration, as well as tax refunds at the office and business. In order to address the issue, all taxpayers will become aware of it and begin using the online taxation system to oversee the Dadeldhura accounting system.

4.3.12 Views on making VAT effective

Respondents were asked to check the suggested option for Dadeldhura district VAT implementation. The table and figure below show the compiled results.

Table 23

Views on making VAT effective in Dadeldhura

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Improved VAT administration			15	33.33	15	24.59	30	27.28
Improved VAT laws & regulations	-	-	10	22.22	15	24.59	25	22.72
Public Awareness	4	100	20	44.44	31	50.82	55	50
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

The majority of responders have addressed public awareness as a means of ensuring the effectiveness of VAT, as Table 4.18 demonstrates. Of the total respondents, 50% selected public awareness as their option, while the second most popular response was to enhance VAT administration as a tool for increasing VAT effectiveness. Only 27.28 percent of respondents suggested improving VAT rules and regulations as a means of increasing VAT effectiveness.

4.3.13 Effective way for VAT education

VAT is a recently implemented scientific tax structure. Therefore, everyone should be informed about it. Consumers anticipate higher prices for products and services as a result of VAT. Due to their ignorance of VAT, businesspeople are also opposed to it. For VAT to be implemented in Nepal successfully, it should thus be a topic of discussion and concern. as main data collection for VAT study, one by one. Feedback gathered from the field survey is as follows.

Table 24*Effective way for VAT education at remote area*

Respondents	Tax officials		Businessmen		Consumers		Total	
	No.	%	No.	%	No.	%	No.	%
Radio/ TV	4	100	30	41.94	30	47.27	64	58.18
Newspaper	-	-	4	16.13	10	7.27	14	12.72
Booklets/Pamphlets	-	-	-	-	10	23.64	10	9.10
Wall painting/banner		-	10	9.68	10	18.18	20	18.18
Seminar	-	-	1	9.68	1	3.64	2	1.82
Total	4	100	45	100	61	100	110	100

Source: - Field survey 2024

Table 24 indicate that 64% of all respondents believe that television and radio are the most effective medium for teaching VAT. A total of 9.10% of respondents indicate that books and pamphlets may be an additional source of education, while 18.18% believe that wall printing or banners would be the greatest medium for VAT education. A newspaper and a seminar, with respective contributions of 12.72% and 1.82%, may aid in VAT education. The best medium for VAT education are TV and radio. The seminar is a poor source of client awareness in a faraway location. Overall, the customer experience with VAT education is poor, leading to the realization that public awareness campaigns on TV and FM radio should be expanded for improved results.

4.3.14 Best ways to increase public revenue through VAT

Since VAT is the main driver of the national economy, Nepal's installation of VAT was driven by a strong desire to boost income. The VAT is the most inclusive, equitable, and transparent type of taxation. Therefore, the likelihood of tax avoidance may be minimal. When asked what the ideal strategy is to enhance public income through VAT, various people have varied opinions. The optimal method for raising VAT collection from the coverage region is displayed in table 4.22 below.

Table 25*Best way to increase public revenue through VAT*

Respondents	Tax officials		Businessmen		Customer		Total	
	No.	%	No.	%	No.	%	No.	%
Alternatives	-	-	-	-	5	8.20	5	4.55
Increasing tax rate	-	-	-	-	5	8.20	5	4.55
Widening its coverage	4	100	30	66.67	35	57.38	69	62.72
Discourage in tax evasion	-	-	10	22.22	10	16.39	20	18.18
Others	-	-	5	11.11	11	18.03	16	14.55
Total	4	100	45	100	61	100	110	100

(Source:- field survey 2024)

Table 25 indicates that expanding the VAT's scope is the most effective strategy to raise public income through it; about 62.72% of all respondents had this opinion. Of the 110 participants, 18.18% opted to discourage the act of tax dodging. Merely 4.55% of respondents suggested raising the tax rate, while 14.55% suggested using alternative ideas to boost public income via value-added taxation. Therefore, we may conclude that it is a result of the general public's lack of knowledge and instruction on VAT. Most people agree that the value added tax system is a fantastic way to raise tax income by expanding the coverage area. We agree. Significant influence from the public awareness initiative has also been shown in the extraordinary rise in public income.

4.4 Major Findings

The primary conclusions drawn from the examination of the data that was gathered and that was made accessible are listed below.

- According to Nepal's total revenue structure, tax income makes up about 89.62 percent of the country's total revenue, while non-tax revenue contributes, on average, 10.38 percent based on data spanning ten years. This is why tax money is so important to the government. On average, the proportion of VAT to total revenue is around 27.48 percent, while its contribution to tax revenue is approximately 33.95 percent. The order of contribution for tax revenue is growing, but the order of contribution for non-tax revenue is dropping. It suggested a positive trend or increase in tax income.

- The quantity of VAT collected climbed from fiscal year 2070/71 to 2075/76; it also increased from fiscal year 2077/078 to 2078/79; however, the amount adversely fell in fiscal years 2076/77 and 2079/80 as a result of diverse commercial and industrial houses experiencing issues related to political instability and the COVID-19 pandemic. The percentage increase in VAT collection has not shown a consistent pattern. The C.V. varies from year to year. of 17.41 percent, indicating a lower level of regularity in the collection of VAT. However, the average percentage increase in VAT is 5.40 percent, indicating that despite fluctuations during each research year, VAT collection is rising.
- The VAT has a 0.994 and 0.997 correlation with tax revenue and total revenue, respectively. These correlations show a strong positive correlation, indicating a meaningful link. Thus, VAT has made a substantial contribution to both tax income and Nepal's overall revenue. the amount of Nepal's total revenue and tax revenue during FY 2070–2071 and FY 2079–2080. The overall income for the fiscal year 2070–2071 was Rs. 35662 ten million, but in the fiscal year 2078–2079, it climbed to Rs. 106630 ten million, the greatest amount during the study years. During studied periods, the average contribution of VAT to total income was 27.48%, with few fluctuations observed. During the research years, the tax income peaked in 2078/79 at Rs. 98430 million, while in 2070–2071 it was Rs. 31224 million. The average percentage of VAT's contribution to tax revenue over the studied periods is 33.95%. ..Ultimately, both tax and VAT revenue are rising, although the percentage that VAT contributes to overall income and tax revenue varies.
- We discovered a strong positive correlation between GDP and the total income from direct and indirect taxes. It demonstrates that as Nepal's VAT collection rises, so does the country's GDP. According to the study, a country's GDP would rise in response to an increase in VAT.
- A primary study on respondents' knowledge of the current VAT rate reveals that, of 110 respondents who were tax officials, business owners, and consumers, 86.36% are aware that the current VAT rate in Nepal is 13%; 3.63 percent of respondents said the current rate is 12%, and 0.91% said it is 11%. In a similar vein, 9.10% of them claimed that they had no knowledge of Nepal's current VAT rate.
- 6) Of the 110 tax authorities, business owners, and consumers surveyed, 59.09 percent reported knowing the process for filing taxes. However, just 42.62 percent

of customers were aware of the process for paying VAT, which indicates a lack of awareness. Similarly, 100 percent of tax officers and 77.78 percent of businessmen knew how to file taxes. It showed that tax officers were well-versed in the process of paying VAT, and that over half of company owners possessed this knowledge; nevertheless, nearly all of Dadeldhura's consumers were not aware of this process.

- Of the 110 tax officials, company owners, and consumers surveyed, 70.79 percent of business owners and 9.10 percent of consumers habitually accept the bill for the majority of their transactions. Overall, 35% of respondents said they occasionally or always pay the VAT on their purchases. After acquiring products and services, 54.54% of customers do not request a tax invoice, according to a study of all answers, indicating that they are not very serious about their bill-demanding behavior.
- Overall, 67.27 percent of respondents said that VAT raises the cost of goods and services and places an additional burden on taxpayers. Nonetheless, 18.18% of taxpayer respondents had no knowledge of VAT, compared to 14.55 percent of respondents who believe it is not an additional expense for them. There is undoubtedly a dearth of awareness regarding VAT in rural areas such as Dadeldhura.
- A total of 59.09% of the 110 respondents stated that the true VAT taxpayers are the customers. However, 31.81 percent of them stated that business owners are the actual VAT taxpayers, and 9.10 percent said they were unaware of this. This indicates that the majority of customers are unaware of who the genuine VAT taxpayer is, and that because they are not well-informed on taxes in the Dadeldhura area, 49.19% of consumers chose businessmen to be the true VAT taxpayers.
- In the Dadeldhura district, out of the largest number of taxpayers, on average 51.82%, with 60% of businessmen and 49.18 percent of consumers feeling that the public is not aware of VAT, compared to 45.45 percent who feel that the public is a little bit aware of VAT, 36 percent who feel that the public is not aware of VAT, and 2.73 percent who feel that the public is fully aware of VAT. The majority of respondents contended that the public in Dadeldhura is both somewhat and completely unaware, as indicated by the percentage.
- Of those who replied to the poll, 75% of tax officials mentioned how difficult it was to make payments, and 25% said how difficult it was to find a tax office nearby

while paying VAT. In a similar vein, 11.12% of respondents cited a lack of rules and regulations, while 44.44% of businessmen mentioned payment procedures and the absence of a nearby tax office. Similar to how they answered to difficulties with time delays in service (8.19%), payment procedures (24.59), the lack of a tax office nearby (16.39), and confusing laws and regulations (50.82%), consumers also agreed that time delays in service (4.54%, 34.55%, 28.18%, & 32.73%). Overall, 38% of taxpayers are reacting due to problems with the payment process, and 36% are responding due to unclear laws and regulations. This result indicated that, in order to effectively administer VAT, the tax payment process should be simple, give clear information about rules and regulations, and be located in different parts of Dadeldhura for the taxpayer's service office.

- Of the 110 respondents, 34.54 percent stated that the primary shortcoming of VAT administration is a lack of infrastructure, 33.64 percent stated that the primary shortcoming of VAT administration is a lack of skilled labor, and 31.81 percent stated that corruption is the primary shortcoming of VAT administration. The vast majority of respondents stated that a deficiency in infrastructure is the main vulnerability of VAT administration.
- 13) Of the 110 respondents, 43.64% blame a lack of public understanding of VAT for the issues preventing the Dadeldhura district's successful application of the tax; consumers seldom ever request a bill for items or services they purchase. One significant issue raised by 13.63% of respondents is the need for laws and regulations to be changed in Nepal in a timely manner. However, data from 43.64% of respondents indicates that the most significant issue is a lack of public knowledge. The government could launch educational programs in various locations at the provincial level to address the issue.
- Of the 110 respondents, 43.64% think that the largest issue with VAT collection is billing. Of these, 44.44% of businesspeople, 40.98% of customers, and 75% of tax authorities approve this option with billing. Tax registration issues rank second in terms of VAT collection on average, accounting for around 23.63% of all issues. According to 19.10% of respondents, the Dadeldhura district's VAT collection is hindered by tax refunds. The biggest issues are often with invoicing and registration, as well as tax refunds at the office and business. Every taxpayer in the

Dadeldhura district will begin using an accounting computerized system to address the issue.

- The field study on the efficacy of VAT reveals that the majority of respondents focused on raising public knowledge as a means of enhancing VAT effectiveness. Of all respondents, 50% selected public awareness as their option. The majority of respondents (27.28%) suggested improving VAT administration as a technique for increasing the effectiveness of VAT, while 22.72% suggested improving VAT rules and regulations.
- Of the study participants, 58.18% choose TV and radio as the most useful media for VAT education in Dadeldhura. According to suggestions from 18.18 percent of the total, wall paintings and banners might be additional source of teaching. The newspaper, according to 12.72 percent of respondents, may be the ideal media for VAT education. Books and pamphlets might make up 9.10 percent of the VAT education. Ultimately, in rural areas like as Dadeldhura, radio and television are the most effective medium for VAT education.
- Approximately 62.72% of the 110 respondents were found to have such line of thinking. Of the 110 participants, 18.18% opted to discourage the act of tax dodging. Merely 4.55% of respondents suggested raising the tax rate, while 14.55% suggested using alternative ideas to boost public income via value-added taxation. Therefore, we may conclude that it is a result of the general public's lack of knowledge and instruction on VAT. The majority of individuals feel that the value added tax system should be expanded in order to raise tax revenue.

4.5 Discussion

This study's primary goal is to assess how Nepal's gross domestic product and national income are affected by the country's overall value added tax. The evaluation and comprehension of information collected from secondary sources. The average contribution of VAT to total revenue is around 28%, whereas its average contribution to tax revenue is almost 32%. We attempt to quantify the VAT's contribution to overall revenue using Nepal's taxable and nontaxable income. The outcome demonstrated that variations in VAT collection between fiscal years had a direct impact on tax income and overall revenue. This study shows a correlation and dependence between total revenue and VAT revenue. Thus, VAT has made a substantial contribution to both tax income

and Nepal's overall revenue. This research's findings are consistent with a previous study by Dahal (2020), which found that there is a long-term, statistically significant positive association between value added tax revenue and overall government revenue.

The secondary data analysis model indicates that the GDP value is trending upward and that the amount of VAT is rising but not consistently. This suggests that the model summary's findings indicate that changes in one variable are what cause changes in the GDP, while changes in other factors are dependant upon those in other components. According to the study, a country's GDP would rise in response to an increase in VAT. This study's findings are consistent with those of Chapagai (2021), who discovered a positive and substantial association between VAT revenue and GDP using a variety of research approaches, including regression analysis. As a result, the results of this investigation support their findings. According to the study, a country's GDP would rise in response to an increase in VAT.

The main issues with the efficiency of VAT in the Dadeldhura district have been identified by this study. The issues include low infrastructure, inadequate billing and invoicing, taxpayer ignorance, ignorance of the tax payment procedure, low knowledge of VAT, and low public awareness of tax invoicing while making purchases of goods and services. Different kinds of difficulties are seen in isolated areas such as Dadeldhura. VAT must be successful, and this largely depends on public awareness campaigns, expanding its reach, businessmen's integrity, tax officials' morality and faith, technology employed, public area focus, robust tax administration, adequate infrastructure related to taxes, successor planning, and an informed public. Gyawali's (2018) study corroborates these conclusions. In order to increase income, the government must focus on tax administration and public education.

CHAPTER - V

SUMMARY AND CONCLUSION

This last chapter provides an overview of the study's implications, conclusion, and research summary. There are three sections that make up the whole chapter. The study is summarized in the first part. The study's result is derived in the second section, and its consequences are discussed in the third portion.

5.1 Summary

Since Nepal's primary issue is a chronic budget deficit and a lack of revenue, better VAT management might make VAT a significant source of money. Another significant issue facing Nepal is tax avoidance and unwillingness to pay taxes. The nation's economic performance is likewise depressing in most important areas. Nepal's economy is not performing up to par, according to the country's basic macroeconomic indicator. Nepal's tax system is incredibly ill-conceived and flawed, and its revenue-raising tools have very unsatisfactory results. The tax system in Nepal is less effective. The primary flaw in the Nepalese tax system is its extremely limited base, which results from a sizable amount of the gap coming from the agriculture sector being outside the tax net. In a similar vein, other issues include low voluntary and direct tax contributions, low compliance, shoddy tax administration, widespread taxation, tax evasion, low public awareness, a lack of tax expertise, onerous legal and administrative processes, etc. The primary issue with the VAT adoption has been a lack of public knowledge. Revenue collection alone is insufficient unless it is paired with a strong sense of respect for taxpayers in an effort to persuade them to willingly pay higher taxes.

Without a doubt, it is highly challenging to identify the degree of consumer and company understanding regarding VAT and the main issues surrounding it in the Dadeldhura district. Examining the effect of VAT on GDP and its contribution to tax income and overall revenue in Nepal is one of the study's other main goals. The contribution ratio of VAT to Nepal's overall revenue and tax revenue has been examined in this study. The relationship between VAT and tax revenue, overall revenue, and Nepal's GDP was also examined in this study. Primary data were evaluated in order to assess the degree of awareness and the main issues surrounding VAT in the Dadeldhura district. Researchers studying taxes, students, and anybody with an interest in Nepali taxation can all benefit from this study. However, there are some limitations to this study as well. For example,

it mainly focuses on the study of VAT in Nepal and the issues and understanding surrounding VAT in the Dadeldhura district. Additionally, secondary data was evaluated in order to interpret the results, meaning that the correctness of the findings rely on the validity of the information that is currently accessible. Additionally, primary data from Dadeldhura district respondents have been studied; nevertheless, they might not be enough or trustworthy for the study. Most academics have only used primary data from the Kathmandu Valley and other metropolitan regions to analyze VAT knowledge and associated issues in order to conduct further, progressive steps in the VAT system; however, Dadeldhura district data was used in this study. In order to achieve the goals of the research, the study is based on primary data from questionnaires and historical data for the study FY 2070/71 to 2079/89. Numerous statistical techniques, such as mean, standard deviation, percentage, graph, chart, correlation, regression analysis, and coefficient of variance, were used to analyze the data. In this particular context, a study was conducted using primary data from a questionnaire to determine the knowledge and related problems of Value Added Tax (VAT) in Dadeldhura district. The sample consisted of 110 respondents, including tax officials, businessmen, and consumers.

The study's findings, which attempted to examine the relationship between VAT contribution to tax revenue, total revenue, and GDP in Nepal, revealed a strongly positive correlation between VAT and tax revenue, total revenue, and GDP. Similarly, the regression model's R-square value of 0.924 indicates that, according to the model summary, the independent variable accounts for 92.40 percent of variations in GDP; other factors determine the remaining changes. Additionally, it is discovered that the correlation between GDP and VAT is quite positive. According to the study, a country's GDP would rise in response to an increase in VAT. The examination of primary data reveals that the main issues concerning the efficacy of VAT are taxpayers' lack of awareness, their ignorance of the tax payment process, their lack of knowledge about VAT, embezzlement, under-invoicing, and the general public's lack of awareness regarding tax invoicing when making purchases of goods and services. For VAT to be successful, a number of factors must come into play, including public awareness campaigns, expanding its application, business integrity, the morality and faith of tax authorities, robust tax administration, enough tax infrastructure, and an informed populace. The research conducted by Gyawali (2018) and Chapagai (2021) has

corroborated these results. In order to increase VAT collection, the government must focus on tax administration and public education.

5.2 Conclusion

The study's findings showed that value added tax makes up a significant portion of Nepal's revenue and eventually helps the country's economy. This is explained by the way the research's variables behaved, which demonstrates that value added tax (VAT) contributes statistically significantly to Nepal's revenue collection. VAT is one of the most powerful, transparent, inventive, and scientific tax systems available, and it deters tax evasion. Nepal, being the least developed nation, has a severe income shortfall that may be addressed by enacting VAT throughout all sectors of the economy, including non-service ones. A wide form of indirect tax is VAT. Although the pattern of VAT income contribution varies in the Nepalese context, the amount has been steadily rising. The relationship between VAT and GDP, total revenue, and tax revenue is very important. Since VAT now has a large influence on government revenue, efforts should be taken to boost this source of funding. Therefore, given a stable and supportive sociopolitical and economic environment, the government must pay sufficient attention to taxes in general and VAT in particular.

The main issue with VAT, according to a field survey conducted in the Dadeldhura district, is that businesspeople and the general public are not aware of the process, the real taxpayers of VAT, and the habit of not demanding tax invoices on purchases. Other issues with VAT include embezzlement of VAT, a lack of skilled labor and expertise, a lack of physical infrastructure, unclear regulations, tax refunds, and under-invoicing. The success of VAT largely depends on public awareness campaigns, expanding its coverage, businessmen's integrity, the morality and trust of tax officials, robust tax administration, adequate tax infrastructures, and an educated populace.

In order to generate a high contribution of VAT revenue on total revenue, tax revenue, and gross domestic product, the Nepalese government should focus on effective public education programs about VAT, long-term strategy and policy, monitoring and supervision of VAT, maintaining administrative expertise through training and development programs, reward and punishment system, registration, and good governance.

5.3 Implications

Based on the study's primary findings and conclusion, the following sectors are identified as the study's concern parties.

1. Total revenue and tax revenue both benefit greatly from the age of the VAT. One view is that experience improves VAT administration and compliance; another holds that unobserved aspects of VAT design get better with time. The study's conclusions indicate that, on average, VAT contributes around 28% of total income and 32% of tax revenue. Creating a long-term plan for planning and collecting VAT money is essential to sustaining government revenue. In order to increase VAT income, strategies should assist the Inland income Department in implementing various VAT education programs for the general public, businesses, and labor force.
2. The GDP and VAT revenue are positively correlated. It demonstrates that raising the VAT widens the economy of Nepal. However, there are a lot of other factors that affect Nepal's GDP. It is true that its strong economic development cannot be guaranteed by the larger VAT-to-GDP positive ratio alone. The government must make an attempt to diversify its taxes. When tax revenue is maximized, the GDP may be maximized as well.
3. The majority of taxpayers and the general public are still in the dark regarding the VAT system and how it affects different areas of the Dadeldhura district region. Therefore, appropriate public and taxpayer education is the primary instrument for the success of VAT. Regular publication of tax-related information is necessary in newspapers, journals, magazines, booklets, radio, television, and other media. An independent IRD department is crucial for conducting analyses, disseminating information, and raising awareness using a variety of platforms, including print and web media as well as seminars and conferences.
4. Although the most advanced and scientific tax system, VAT has several challenges in Dadeldhura related to infrastructure, administration, tax awareness, embezzlement, and murky regulations. Significant components of the efficiency of VAT include its transparency, the morality and faith of tax authorities, robust tax administration, adequate tax infrastructure, informed community, expanding its coverage, and the integrity of company owners. The government should prioritize public education programs about Value Added Tax (VAT) in order to maximize VAT revenue contribution to total revenue, tax revenue, and GDP.

Other concerns for the effectiveness of the VAT program include well-trained personnel, adequate infrastructure, long-term strategy and policy, monitoring and supervision of VAT, administrative expertise maintenance through training and development programs, reward and punishment systems, registration, and good governance.

This research is beneficial to anybody interested in learning about the VAT system in Nepal, taxpayer awareness, and VAT-related issues in the Dadeldhura area. It will be helpful for scholars to investigate this issue further. The nation as a whole and the Inland Revenue Department both benefit from the success of the VAT system. Broadening the coverage of general media, including radio, TV, and newspapers, is crucial. Therefore, it is important to raise awareness of the VAT system among the general population, nonprofit organizations, and government agencies.

Area for Future Studies

There is also a need to do more research in other places and with secondary data spanning longer time periods, as this study only included a field survey and ten years of secondary data from the Dadeldhura district. Further investigation is required to evaluate the variables influencing Nepal's VAT income performance. The study only used regression analysis to analyze VAT, indirect tax without VAT, direct tax, and GDP as independent and dependent variables. Future research should be conducted to include additional variables like inflation rate, budget deficit, exchange rate, money supply, and unemployment rate to determine the impact of these factors on Nepal's GDP and draw more trustworthy conclusions. Future research may be carried out with a larger sample size, more sophisticated technique, a greater number of observations, and the input of more respondents.

REFERENCES

- Acharya, S. (2021) Impact of raising tax rates in GDP growth: the case of Nepal. *'Nepal Bank Patrika' Baisakh Masanta, NBL 2 (1)*.
- Adhikari, C. M. (2007). *Value Added Tax System in Nepal*. Pairavi, Prakashn, Kathmandu.
- Adkhari, D. & Pandey, D. (2018). *Research Methodology*, Asmita's Books, Publisher and Distributers.
- Alavuotunki, K., Haapanen, M. & Pirttila, J. (2023). The Effects of the Value-Added Tax on Revenue and Inequality. *The Journal of Development Studies*, 55(4), 490-508.
- Alhussain, A. (2020). The impact of value-added tax (VAT) implementation on Saudi banks. *Journal of Management and Research* 4(6)64-83
- Bhattra, R. Dhakal K. & Koirala, G. P. (2015). *Taxation in Nepal*, Kathmandu: Asmita Books Publisher and Distributors
- Bhjracharya, B. C. (2010). *Business Statistics of M.K*, Kathmandu, Books Publishers and Distributors.
- Chapagai, S.D. (2021). To investigate the relationship between VAT and GDP in Nepal. To analysis relationship with vat and Gdp, *The Journal of Nepalese Business Studies*, 2645-8381.
- Chapagai, SD(2021), To investigate the relationship between VAT and GDP in Nepal. To analysis relationship with vat and Gdp, *The Journal of Nepalese Business Studies*, 2645-8381.
- Chapagain, F. (2022). contribution of VAT to gross domestic product in Nepal from 2001 to 2019 based on empirical evidences. *Journal of Economics and Finance*, 1(5), 10-30.
- Chaudhary, M.S. (2013) contribution of VAT to the GDP of Bangladesh: A Trend study, *Business Studies*, 34 (2) 132-140.
- Chosen, s. (2009). A VAT Primer for Lawyer, Economists, and Accounts, tax note International.
- Das, A. (2017) GST or Goods and Services Tax, the greatest tax reform in India since independence which has been long pending. *Journal of Nepalese Business Studies*, 1(1), 84-93.

- Gnawali, A. (2020). Tax Payers' Knowledge Towards Value Added Tax in Nepal. *The Journal of Nepalese Business Studies*, 11(1), 76-86.
- Gnawali, B. (2020). Tax Payers' Knowledge Towards Value Added Tax in Nepal. *Journal of Research* 1(2)45-68.
- Humagai. RP.(2021),Implementation of Value Added Tax in Nepal. To analysis contribution of VAT on GDP, Total Revenue Total Tax Revenue and Indirect Tax Revenue, Nepal journal onlion,2595-3278
- Humagai. RP.(2021),Implementation of Value Added Tax in Nepal. To analysis contribution of VAT on GDP, Total Revenue Total Tax Revenue and Indirect Tax Revenue, *Nepal Journal Onlion*, 4 (10), 2595-3278
- James, B. (2022). Consequences of actual value-added tax (VAT) systems, and evaluate the "health" of the real VAT. 3(2), 46-65
- James, B. (2022). Consequences of actual value-added tax (VAT) systems, and evaluate the "health" of the real VAT. *The Journal of Nepalese Business Studies*, 3(2), 46-65.
- Khanal, B. (2014). Value Added Tax in Nepal, Administrative and policy" focused to improvement over the sales Tax System. *The Journal of Research* 55(4), 47-50.
- Kharel, K. R. (2021). Tax revenue of Nepal: Assessing the impact on GDP. Inter disciplinary Journal of Management and Social Sciences, 2(1), 80-89.
- Kharel, K. R. (2021). Tax revenue of Nepal: Assessing the impact on GDP. Inter disciplinary. *Journal of Management and Social Sciences*, 2(1), 80-89.
- Koirala. K.B. (2022). Performance of Value Added Tax System in Nepal. to analysis performance of Value Added Tax System in Nepal. *The Journal of Nepalese Business Studies*, 26 (14), 12-38.
- Koirala.K.B.,(2022). Performance of Value Added Tax System in Nepal. to analysis performance of Value Added Tax System in Nepal. *The Journal of Nepalese Business Studies*, 10 (11), 2676-1238.
- Lal, B. B. (1996). *Direct Taxes, Practice and Planning*. 9th Edition, Delhi; Konarka Publisher Pvt. Ltd, 3(1), 161.
- Neupane, N. (2020) conducted profitability determinants of Nepalese commercial banks. *Journal of Research Management*, 5 (1), 14-18.

- Pandey, S. (2022). *A study on VAT implementation, problems & effectiveness*. An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, Shanker Dev Campus TU, Kathmandu.
- Paudel N. (2023). Assessing 25 years VAT implementation in Nepal : singular taxation framework lacking discernible differentiations between luxury and essential commodities. 2(2), 44-63
- Paudel N. (2023). Assessing 25 years VAT implementation in Nepal: singular taxation framework *lacking discernible differentiations between luxury and essential commodities*. 2(2), 44-63.
- Paudel, R. (2019). *Problems on Implementation of VAT*. (A Case Study of Lalitpur District), An Unpublished Master's Degree Thesis submitted to office of the Dean Faculty of Management, Tribhuvan University, Kathmandu.
- Paudel, S.P..(2023), To analysis the VAT Collection efficiency of Nepal. To analyze the contribution of VAT to the economic growth of Nepal. *Nepal onlion Journal*, 10 (12), 16-17
- Regmi, S. (2020). *Analysis of Problems and Practices of Value Added Tax (VAT) in Nepal*. An Unpublished Master's Degree Thesis submitted to office of the Dean Faculty of Management, Tribhuvan University, Kathmandu.
- Sodari, K. B. (2021). *Analysis of Problems and Practices of Value Added Tax (VAT) in Nepal*. An Unpublished Master's Degree Thesis submitted to office of the Dean Faculty of Management, Tribhuvan University Kathmandu.
- SP Paudel, SP.(2023), To analysis the VAT Collection efficiency of Nepal. To analyze the contribution of VAT to the economic growth of Nepal. *Nepal Onlion Journal*, 10 (12), 2616 - 017x.
- Subedi, B. R. (2008). *Value Added Tax and its Applicability in Nepal*, Kathmandu: Bhirikuti Academic Publication, Exhibition Road.
- Swistak. A, & Feria. R, (2024). Designing a Progressive VAT. the biggest challenge in our modelling stems from the limited reliability of income in developing countries, WP/24/78
- Swistak. A, and de la Feria. R,(2024), Designing a Progressive VAT. the biggest challenge in our modelling stems from the limited reliability of income in developing countries , WP/24/78

Wagle, P. (2023). *A study on Value Added Tax system in Nepal*. An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, Shanker Dev Campus TU, Kathmandu.

Yadab, P. A. & Acharya K. P. (2016). *Statistical Methods*, Kathmandu Dhaulagiri Books & Stationery.

APPENDIX

Dear Sir/Madam,

Namaste!

First of all, I would like to introduce myself. This is me Nootan Regmi, I am a student of Tribhuvan University, Shanker Dev Campus Putalisadak with master's degree of Business Studies (MBS). Currently I am doing research work on "CONTRIBUTION OF VALUE ADDED TAX IN TOTAL REVENUE OF NEPAL", with Effectiveness of Value Added Tax in Dadeldhura District for the fulfillment of my dissertation paper on management for the Master's Degree in Business Studies (MBS). I do need a kind help from you. I request you to fill up the following questionnaire for fulfill my research work. Be assured that the information you provide will be strictly used for academic purposes. Therefore do not hesitate to provide me with the information as per your knowledge, skills and experience. I give my thanks in advance believing that you will assist me to accomplish this study. Please tick marks the suitable alternative.

Thank you!

Kindly provide your

Name: -

Occupation:-.....

Address: -.....

1. Do you know what the current rate of VAT in Nepal is?

- a) 13 %
- b) 12 %
- c) 11 %
- d) Don't Know

2. Do you know about taxpaying process?

- a) Yes
- b) No

3. Do you ask for the tax invoice after purchasing goods or services?

- a) Yes, on every purchase
- b) Yes, but not regular
- c) No, never

4. Does value added tax increase the value of goods and service?
a) Yes ()
b) No ()
c) I don't know ()
5. In your opinion, who is the real taxpayer of VAT?
a) Consumer ()
b) Businessman ()
c) No idea ()
6. Do you think that the public are fully aware of VAT in Nepal?
a) Yes fully ()
b) Little bit ()
c) Not at all ()
7. What is the most difficulty you faced while paying tax?
a) Time delay in service ()
b) Payment procedure ()
c) Lack of tax office near place ()
d) Confusing rules and regulations ()
8. What might be the reason of weakness in VAT administration?
a) Lack of trained manpower ()
b) Corruption & embezzlement ()
c) Lack of physical infrastructure ()
9. What may be the major problems in proper implementation of VAT?
a) Administrator Incapability ()
b) Under invoicing ()
c) Frequent change in act ()
d) Lack of public awareness ()
e) Lack of long term policy and strategy ()
10. What may be the major VAT Collection Problem in Dolakha?
a) Registration ()
b) Accounting keeping ()
c) Billing ()
d) Tax refunding ()

11. In Your opinion, which idea is best on making VAT effective?

- e) Improved VAT administration ()
- f) Improved VAT laws and regulation ()
- g) Public awareness ()

12. Which idea may most effective way for VAT education to enhance public awareness?

- a) Radio/TV ()
- b) Newspaper ()
- c) Booklets/pamphlets ()
- d) Wall painting /banner ()
- e) Seminar ()

13. Which one of the following option is the best to increase public revenue through VAT?

- a) Increasing tax rate ()
- b) Widening its coverage ()
- c) Discourage in tax evasion ()
- d) Other ()

Thank You

CONTRIBUTION OF VALUE ADDED TAX IN TOTAL REVENU...

By: Nootan Regmi

As of: Jul 25, 2024 12:50:32 PM
24,340 words - 18 matches - 10 sources

Similarity Index
7%

Mode: Summary Report ▾

sources:

39 words / 1% - from 27-Mar-2024 12:00AM
elibrary.tucl.edu.np

35 words / 1% - from 17-Feb-2024 12:00AM
elibrary.tucl.edu.np

24 words / 1% - from 17-Feb-2024 12:00AM
elibrary.tucl.edu.np

20 words / 1% - from 27-Feb-2024 12:00AM
elibrary.tucl.edu.np

20 words / 1% - from 17-Feb-2024 12:00AM
elibrary.tucl.edu.np

20 words / 1% - from 16-Feb-2024 12:00AM
elibrary.tucl.edu.np

19 words / 1% - from 16-Feb-2024 12:00AM
elibrary.tucl.edu.np

17 words / 1% - Internet from 11-Jan-2023 12:00AM
elibrary.tucl.edu.np

27 words / 1% - Crossref
[Keshar Bahadur Kunwar. "Impact of Macroeconomic Variables on Value Added Tax in Nepal: An Error Correction Model", Journal of Tikapur Multiple Campus, 2022](#)

18 words / 1% - from 08-Jun-2024 12:00AM
fastercapital.com

paper text:

Abstracts

The contribution of VAT to Nepal's GDP and total revenue , as well as the efficacy of